25X1

Approved For Release 2004/07/28 : CIA-RDP80T00702A000900050002-5

TRANSMITTAL SLIP

DATE: 29 Jan 79

TO: PPG/RAD

ROOM NO.

BUILDING

REMARKS: For your records. I think you have answered already.

FROM: OSA/ER - Ethel

ROOM NO.

BUILDING

EXTENSION

FORM NO. 241
1 FEB 55

REPLACES FORM 36-8 WHICH MAY BE USED.

(47)

Next 12 Page(s) In Document Exempt

Economic Intelligence Weekly Review

2 November 1978

Secret

ER EIWR 78-044
2 November 1978

Copy 315

25X1

ECONOMIC INTELLIGENCE WEEKLY REVIEW

2 November 1978

25X1

Articles

FRANCE AND THE EMS: THIRD TIME AROUND *

French President Valery Giscard d'Estaing's decision to enter the European Monetary System (EMS) appears as firm as any political decision can be. While political considerations are dominant, the government argues that economic conditions are more favorable for such a move than at any time in years. France's current account has just returned to balance, although continuing rapid inflation generates skepticism about tying the franc to the deutsche mark. The motivations behind Giscard's EMS decision revolve essentially around the following: (a) the traditional French desire for fixed exchange rates, (b) the weakness of the US dollar and the general instability of international currency markets, (c) the desire to enhance French influence in a more unified European Community, and (d) the complementarity between EMS membership and domestic economic policy goals, especially slower inflation and improved competitiveness.

The EMS, currently planned for implementation on 1 January 1979, is shaping up as an expansion of the present joint float—the so-called snake—with the French franc and possibly the Italian lira, the British and Irish pounds, and some other European currencies as additional participating currencies. Although serious differences remain to be worked out at the negotiating/technical level, Giscard and West German Chancellor Helmut Schmidt clearly have concluded that Europe must do something, even if the risk of failure is considerable. The two leaders appear to have the personal will and political clout to overcome the many technical obstacles to early implementation of the EMS. If need be, they may go it alone in launching an expanded currency system.

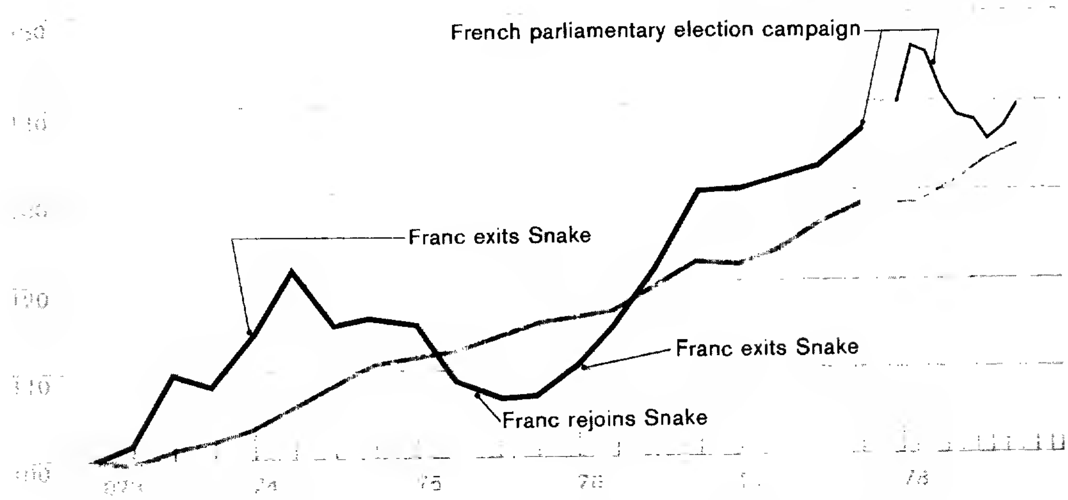
Whether France will be able to remain in the EMS for long will depend on (a) the durability and results of Prime Minister Raymond Barre's anti-inflationary policies, (b) the flexibility of the new currency arrangements, and (c) the course of international currency speculation. To enhance chances of staying in the EMS, the French

25X1 [redacted]

Approved For Release 2004/07/28 : CIA-RDP80T00702A000900050002-5

Ratios of Francs to Deutsche Marks and French to German Consumer Prices
(Index: 1973 I=100)

Exchange Rate Differential [1]
Inflation Rate Differential [2]



1. Index of French franc/deutsche mark cross-rates. An increase in the index shows weakening of the franc vis-à-vis the deutsche mark.
2. Ratio of the French consumer price index to that of West Germany. A comparison of the wholesale price index reveals similar trends.

577680 10-78

Government probably will engineer a devaluation of the franc prior to initiation of the EMS. Once the system is operating, Paris would opt for further periodic devaluations rather than an externally imposed increase in austerity. France would drop out if remaining meant changes in domestic policy that Giscard perceived as clearly against the national interest or inconsistent with his political survival. The skepticism of outside observers for the long-term outlook of the EMS appears justified.

French Motivations

Despite the history of previous European monetary failures and the franc's record as a two-time snake drop-out (January 1974 and March 1976), Giscard and Schmidt have concluded that another attempt must be made to link the currencies of EC members. The two leaders agree on the urgency of forming the EMS. The chicken-egg question of which should come first, coordination of economic policies or of exchange rates, has been answered in favor of the latter, at least for now. The French, who

traditionally favor fixed exchange rates, believe they have convinced the West Germans of the evils of floating. An indication of French opinion on this subject is contained in the late-September press quotation of an unnamed Finance Ministry official: "... [France's] greatest intellectual victory is that the Germans, previously unconditional allies of Washington, now agree with the French point of view that the current situation is intolerable."

Another factor pushing France toward the EMS decision is a conviction that the weakness and particularly the instability of the US dollar have been the primary cause of intra-European exchange rate problems. Although Giscard believes a truly durable international currency system must await some solution to the "dollar problem," he is firmly convinced that a "European zone of monetary stability" is needed to create a buffer for the European currencies against dollar fluctations. Furthermore, Giscard probably hopes that a European demonstration of decisiveness and solidarity will encourage stronger US action to help stabilize forcign currency markets.

French political ambitions are perhaps an even more important factor underlying the decision. Giscard wants France to play a greater role in the world and believes that both politically and economically this can be achieved only through a stronger Europe, with France as its natural leader. Giscard views 1979 as "the year of Europe," marked by the first direct election to the European Parliament, progress toward accession to the Community of three new members, and implementation of an EMS as another step toward the long-heralded Economic and Monetary Union. For Giscard, the year's importance is increased further by France's succession to the EC Presidency, replacing West Germany, on 1 January 1979. In addition to wanting progress toward the EMS while their respective countries occupy the EC presidency, Giscard and Schmidt may feel that pushing hard against a short deadline is the only way to obtain a decision among nine countries with differing political aspirations, economic policies, and business trends.

Complementarity of Internal Policies and the EMS

The French Government is hoping that efforts to remain a full and strong partner in the EMS will reinforce domestic anti-inflationary and modernization policies. Opinion in Paris supports the Barre prescription of giving top priority to checking inflation, provided that efforts are made simultaneously to limit unemployment. Many economic advisers doubt the possibility of meeting official inflation targets—a 6-percent annual inflation rate by the end of next year, an average rate for 1979 of 8 percent—under the best of circumstances. Paris hopes that joining the EMS will buoy up the franc and force the inflation rate lower than it otherwise would be. Prime Minister Barre, who initially advised against EMS, is now a vocal supporter.

Other longstanding French goals have been translated into policy initiatives since the March 1978 reelection of the center-right parliamentary coalition. To achieve the dream of matching West German free-market dynamism and international competitiveness, Paris has removed nearly all industrial price controls; plans to progressively reduce subsidies to public utilities and services as well as state-owned firms, permitting compensating price hikes; and threatens to cut off financial assistance to noncompetitive private firms. The resulting "bubble" in the inflation rate does not greatly concern the government, which considers it a necessary short-term result of more realistic policies.

Rising unemployment continues to pose a threat to the French economic strategy. Giscard and Barre clung stubbornly to their economic plan through the election campaign ending last March, ignoring pleas of political advisers who wanted expansionary policies to improve the governing coalition's chances. With the center-right comfortably ensconced in the National Assembly and the next important political test not due until the 1981 presidential election, they now have less reason than before to veer off from attempts to wring inflation out of the economy and make France a more modern industrial state. [redacted] 25X1

25X1 [redacted]

Negotiating From the Top *

Since the July EC Summit endorsement of the EMS concept, representatives of member governments have been trying to work out technical details in the EC Commission's Monetary Committee and in the EC Central Bank Governors Committee. Discussions stalled in August, primarily over a disagreement between French and German negotiators concerning the method of defining the exchange rate limits of the system. The French delegation had been pushing for the currency baskct concept, which in some instances of exchange rate pressure could put the burden of intervention and policy adjustment on a single strong-currency country (presumably West Germany).

Giscard and Schmidt appeared to have resolved the issue at one of their regular

[redacted] 25X1

tete-a-tetes in mid-September. Faced with flat West Geman refusal to accept the basket concept, the French President abandoned his position and agreed to accept the parity-grid system. Thus, the grid system currently employed in the snake would be used for determining intervention points; the basket approach would be employed simply as a warning system to trigger discussions on possible intervention or domestic policy changes before the grid system's obligatory intervention points were reached.

Despite the Giscard-Schmidt agreement "in principle," EC negotiations continue to stumble over practically the same differences as those presumably resolved, at least between the French and Germans. Non-German EC members, including the French, are pushing for a more definite role for the basket in determining intervention obligations of a strong-currency country; the West Germans continue to resist. On the surface, French negotiators seem not to have received word of their President's change of mind. A more plausible explanation of their persistence is that France intends to push for concessions—particularly regarding West German intervention obligations in the event of severe dollar fluctuations—until a complete agreement is worked out. In any event, negotiators probably recognize that differences will ultimately be resolved at the highest level.

To the weak-currency countries, the currency basket issue and the disagreement over the size of EMS support facilities have become symbolic of West German reluctance to make commitments entailing substantial costs. In fact, the West German position is regarded as a retreat from the EC's agreed goal of a qualitatively new currency system. For its part, France clearly wants to avoid having to expend huge amounts of reserve funds in a fruitless effort to support its currency, as it did when trying to stay in the snake in early 1976. While West Germany loaned deutsche marks for intervention in 1976 and presumably would do so again, France would much prefer to obtain a formal German commitment to act directly in the market *against* a rising deutsche mark rather than *for* a falling franc.

Giscard and Schmidt meet again today in Paris. Another agreement "in principle" will likely be announced, although basic differences concerning intervention obligations and credit facilities surely will persist. Moreover, other countries may resent such self-appointed Franco-German leadership even more than in the past. Thus far, most compromises have reflected concessions by Giscard, and the same pattern may emerge from the next Franco-German summit. In the meantime, however, the French President will have his negotiators push for all possible concessions from the West Germans. While the final outcome at the 4-5 Decmeber EC Council meeting may differ little from the compromise reached at the mid-September summit, French negotiating pressure may produce some give in the West German position.

Prospects for France and the EMS—A Mixed Bag

President Giscard now seems determined to take France into a European Monetary System at the earliest moment. As long as Chancellor Schmidt remains equally resolute regarding EMS, technical problems and continued opposition from lower levels of the French and West German Governments could be swept aside. Nevertheless, economic or political pressures might yet cause either of the two leaders to shift position, at least enough to delay implementation of EMS beyond the 1 January 1979 target date.

The franc's prospects once in the EMS will depend on the technical specification of the system and on its functioning. The wider the bands for fluctuation and the greater the resources for intervention and credit support, the longer the system can operate without parity changes.

The inflation differential between France and West Germany will be a benchmark for determining the chances of the EMS, and it likely will remain relatively wide. French officials argue, however, that France's underlying rate of inflation is around 8 percent rather than the current observed rate of about 10 percent. They contend that the observed rate has been ratcheted upward by one-time price increases resulting from price deregulation and government-administered rate hikes. The French also assert that West Germany's underlying inflation rate is higher than the registered 3 percent, as deutsche mark appreciation has produced a drop in import prices and an artificially low rate of consumer price increases. Given greater stability in intra-European exchange rates, the West German inflation rate could well rise by one or two percentage points. The resulting gap of three to five percentage points between France and West Germany could be taken care of with periodic currency realignments within the EMS, provided that speculative currency flows did not add excessively to exchange rate pressures. The outlook for smooth adjustments is brightened by increasing French and West German willingness to accept timely devaluations/revaluations. France is particular has indicated that it would devalue its currency within the EMS in response to divergent economic trends.

Other than speculation, the factor most likely to prevent France from remaining in the EMS would be domestic pressure to pursue policies not in accordance with EMS objectives. At the moment, Giscard judges the two complementary; current policy and expected pressures from EMS membership point in the same direction. He wants a strong franc (like the deutsche mark) and a strong economy (like Germany's). The key short-term policy goal of slowing inflation is consistent with EMS membership. France does not expect the EMS to force more austere policies than those currently employed; rather, the EMS would be used only as additional justification for such policies. If

continued EMS membership should come to depend on more austere policies, the French would be likely to withdraw.

Giscard may in fact be forced to draw back from current anti-inflationary policy before its objectives are achieved. Unhappiness with the Barre Plan, particularly as reflected in record unemployment, is widespread and increasing. The leftist labor unions and the Socialist and Communist parties are currently dispirited and disorganized, but strike activity is on the rise. More importantly, Giscard's Gaullist coalition partners—nationalistic, distrustful of the European Community, and concerned about unemployment—might choose unfavorable economic trends as the ground for a break with the majority. Unless Paris can point to a visible slowdown in inflation by the middle of next year, pressure to stimulate economic activity and reduce unemployment could become irresistible. A policy reversal would dash Giscard's hope of bringing France's inflation rate into closer alignment with West Germany's and ultimately doom the latest attempt at closer monetary coordination in the European
25X1 Community. [redacted]

* * * * *

INDIA: SLOWDOWN IN MANUFACTURED EXPORTS BOOM

With manufactured exports expected to reach $3.5 billion this year, India ranks high among LDC exporters of manufactured goods, but well behind South Korea, Taiwan, and Hong Kong. Backed with considerable formal and informal encouragement from the government, India's export gains have been based largely on selling steel and machinery to Middle East OPEC countries and textiles, clothing, and yarn in developed country markets. Export growth is now being hurt by domestic shortages of key industrial inputs and growing labor unrest. Moreover, New Delhi's new five-year plan (1978-83) reduces the priority of heavy industry, which has been the main underpinning for export growth. These factors almost certainly will retard export expansion over the next several years even though India should do well in selected markets—for example, in sales of machinery to LDCs.

Export Record

Between 1970 and 1977, foreign sales of manufactured goods climbed from $1.1 billion to an estimated $3.2 billion, growing at a rate of 17 percent annually or double the rate of the 1960s. Export growth is slowing this year, however, and sales are expected to show only a small increase, to $3.5 billion. Despite its success in tapping foreign markets, India has not matched the pace of other leading LDC exporters. Its

share of LDC exports of manufactured goods to the OECD countries, for example, slipped from almost 9 percent in 1970 to 6 percent in 1977.

India: Destination of Manufactured Exports

	Million US $		Average Annual Percent Growth
	1970	1977	
World	1,067	3,200	17
OECD	462	1,525	19
Of which:			
United States	169	382	12
France	13	115	37
West Germany	25	238	38
Italy	9	113	44
United Kingdom	74	276	21
Japan	63	95	6
OPEC	95	500	27
Of which:			
Saudi Arabia	11	75	32
Iran	28	90	18
Kuwait	12	90	33
United Arab Emirates	28	110	22
Far East	125	325	15
Africa	36	130	20
USSR	148	280	10
Eastern Europe	81	150	9
Other	120	290	13

Export expansion has partly compensated for the slow growth of domestic demand and resulting underutilization of manufacturing capacity. Exports of steel products accounted for nearly 20 percent of domestic steel output in 1976 and 1977 compared with an average of 6 percent in the early 1970s. Textile production received a major boost following the 1973/74 OPEC oil price hikes because the bulk of output was cotton goods whereas other major LDC exporters had already converted to petroleum-based synthetic fibers.

The export push has focused on shipping capital goods and intermediate iron and steel products to the Middle East and Asian LDCs, while exporting textiles and apparel to OECD countries. Sales of capital goods and intermediate products grew from $330 million in 1970 to $1.1 billion in 1977. Exports in this category cover a broad range of products including (a) heavy industrial equipment and electrical machinery; (b) a variety of steel and pig iron products; and (c) nonferrous metal manufactures such as aluminum ingots and sheets, copper, and copper alloys.

India: Leading Manufactured Exports, by Commodity

	Million US $		Average Annual Percent Growth
	1970	1977	
Manufactures	1,067	3,200	17
Textiles	460	800	8
Clothing	36	340	38
Leather	95	280	17
Iron and steel	131	360	16
Tubes and piping	15	70	25
Metal manufactures	33	150	24
Machinery	38	140	20
Electrical machinery	22	100	24
Transport equipment	46	120	15
Chemicals	47	130	16
Other	144	710	26

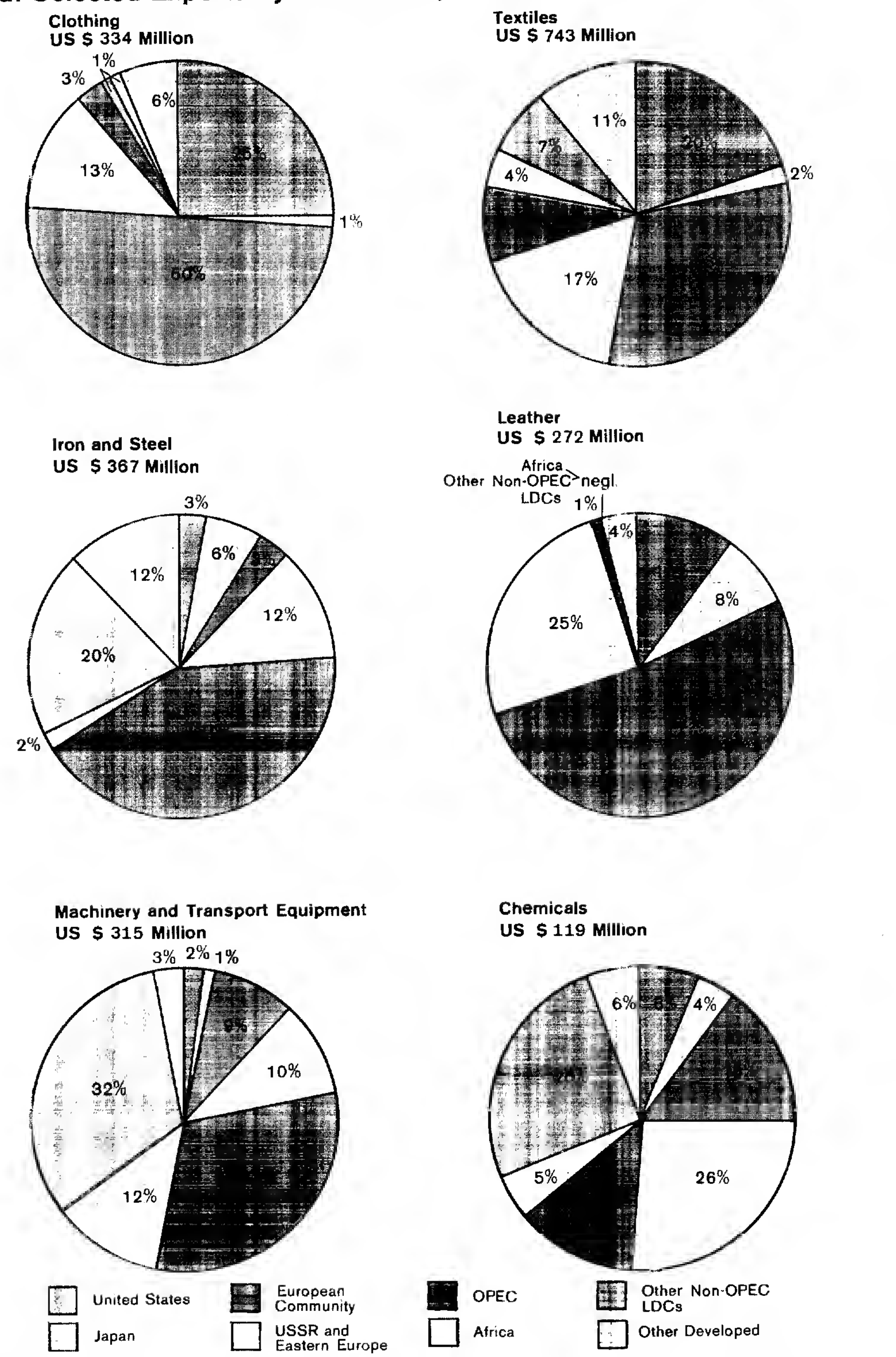
Market Penetration

The OECD countries and the OPEC oil producing nations together absorb nearly 65 percent of India's manufactured exports. Success in these areas has been narrowly based. In the OECD, export growth has consisted mainly of leather goods and textile sales to five countries—France, West Germany, Italy, the United Kingdom, and the United States. In the Middle East, India has effectively cashed in on the economic development boom in the Persian Gulf states by exporting iron and steel products, machinery, and construction materials to Saudi Arabia, Iran, Kuwait, and the United Arab Emirates. Sales to non-OPEC LDCs reached $600 million in 1977, nearly one-fifth of manufactured exports.

United States

Exports of manufactured goods to the United States, India's major trading partner, stagnated in 1977 at $382 million, roughly the same level as in 1976. A sharp drop in apparel sales—to $74 million—because of competition from East Asian suppliers was primarily responsible and cut the Indian market share to 2 percent. Textiles make up 65 percent of exports to the US market and are the major dollar earner; in 1977, textiles held a 10-percent share of the US market. Apart from these products, India has had little success in penetrating the US market with the manufactured goods that have been successfully marketed elsewhere. For example, steel products and heavy machinery sales amounted to only $24 million in 1977 and accounted for a negligible share of the market.

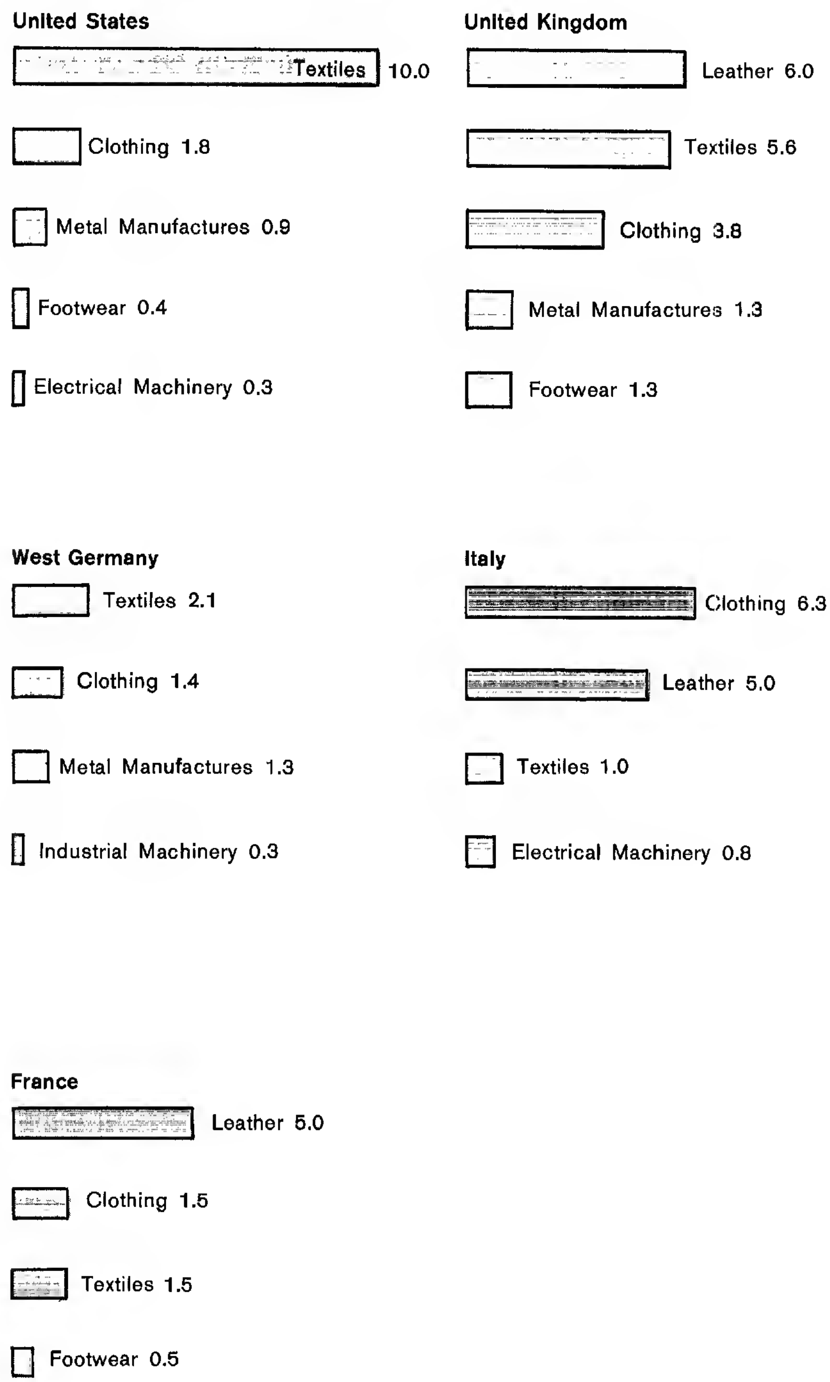
India: Selected Exports by Destination, 1976



577681 11-78

India: Major Commodity Market Penetration, 1977

Share of Import Market (Percent)



577684 11-78

Western Europe

Sales to Western Europe reached $850 million in 1977 compared with $175 million in 1970; the United Kingdom and West Germany are by far the biggest customers. Textiles and clothing have been the leading exports, giving India a 9-percent share of the import market in the United Kingdom, and 3 percent in West Germany and France. Even these small percentages have generated a strong protectionist reaction; under the Multi-Fiber Arrangement of December 1977, import quotas on Indian sales of apparel to EC countries restrict volume increases to only 1 percent over 1976 levels. India has captured only a miniscule 0.3-percent share of the highly competitive EC heavy machinery market. Overall, India's share of the EC import market in manufactures has remained small—less than 0.5 percent throughout the 1970s.

OPEC

Competitive prices and low transport costs helped boost Indian exports to the OPEC countries by more than $400 million since 1970, to $500 million in 1977. Iron and steel products, construction materials, pipe, machinery, and transport equipment have been major foreign exchange earners. Manufactured exports have benefited from the success of Indian consulting and engineering consortiums in winning several large contracts, such as a $280 million contract to build 3,300 homes and the supporting infrastructure in Kuwait and a $100 million contract for a power plant in Saudi Arabia. Steel exports, $150 million in recent years, account for one-third of manufactured exports in the area.

USSR and Eastern Europe

Exports to the USSR and Eastern Europe absorbed 13 percent of total manufactured exports in 1977. At $430 million last year, sales were nearly twice as large as in 1970. Yarn, fabrics, and clothing make up the bulk of sales to the USSR as well as to Eastern Europe. Trade with the USSR is conducted under annual bilateral agreements which call for balancing exports and imports. India's growing trade surplus with the USSR has recently prompted Moscow to cut back imports.

Competitive Factors

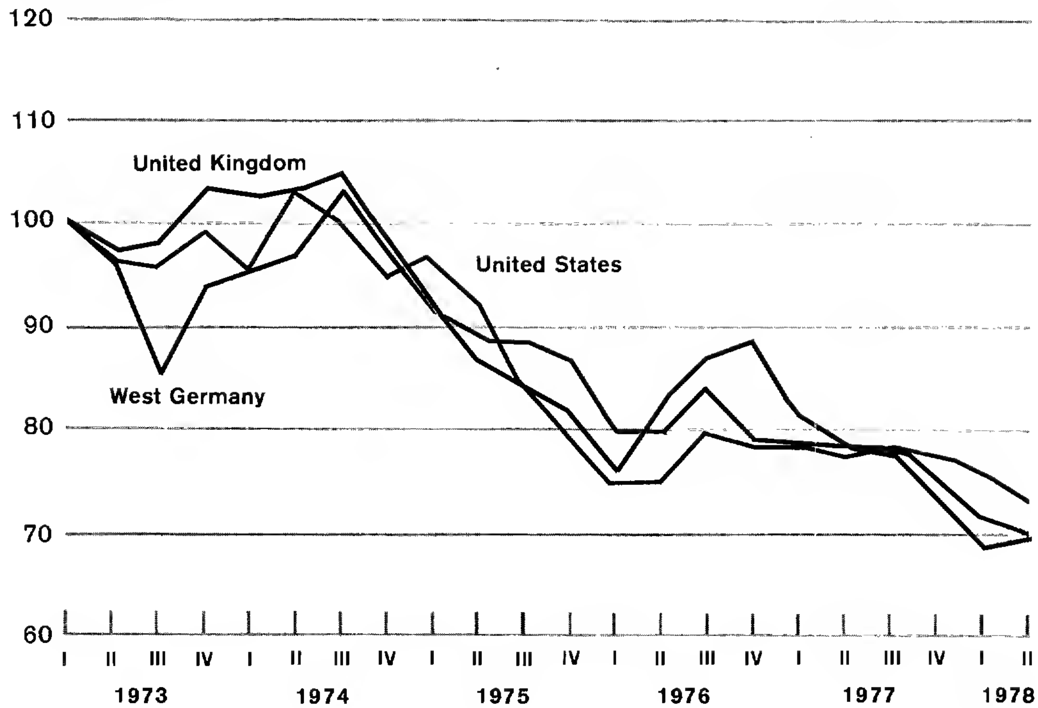
In the 1970s India, as a long-established exporter, was able to increase manufactured sales in absolute terms though it lost ground relative to the vigorous new LDC exporters. Its failure to do better resulted from its inability to keep up with developments in technology, packaging, and marketing. At the same time India did

well in holding down price increases. The 9-percent average annual increase (1971-77) in wholesale prices of Indian manufactured products has been considerably lower than the increase in many other leading LDC exporters. Because of rupee depreciation, average dollar prices of manufactured goods have risen only 3 percent annually since 1975, less than half the rate for other leading LDC exporters and well below the rates for most developed country competitors. Since the link with the pound sterling was severed in 1975, the rupee has been permitted to depreciate on a bilateral price-adjusted basis 13 percent against the US dollar, 17 percent against the British pound, and 16 percent against the Hong Kong dollar.

Labor discipline, which had deteriorated in the early 1970s, stiffened under Mrs. Gandhi's Emergency Rule (June 1975 to March 1977), with a resulting jump in productivity gains and a dampening of wage increases. Productivity gains in 1976-77 averaged 5 percent.

India: Price-Adjusted Bilateral Exchange Rates

Index 1973 I=100



577683 11-78

In cooperation with private firms, the government has moved to beef up marketing and related services. An increasing number of trade missions are being sent overseas to conduct market analysis and acquaint importers with Indian manufactures. This year, for example, the Engineering Export Promotion Council, representing 6,000 firms, is sponsoring 60 trade delegations to various countries. Quality control inspections have recently been tightened. Several after-sales and service centers are being established in overseas capitals for government-owned manufacturing firms. As for financing, the government has approved but not yet established an export-import bank.

In contrast to the situation in several other LDCs, notably South Korea, Taiwan, and Brazil, multinational corporations have not played a substantial role in India's export growth nor are they apt to in the future. New Delhi has maintained tight controls on foreign investment to keep majority interest and ownership in domestic hands. Although exceptions may be made in highly export-oriented and sophisticated technology areas, these restrictions and a host of administrative controls have discouraged foreign investment.

Government Policies

Indian exporters benefit from a wide array of formal and informal incentives to support exports of manufactured goods. Cash subsidies alone amounted to an estimated $330 million in 1977, equal to 10 percent of total manufactured exports. One of the largest beneficiaries is the capital goods and machinery sector, which receives cash assistance ranging between 10 and 20 percent of f.o.b. value. Various categories of cotton textiles are eligible for rates of 10 to 12.5 percent. The rates are adjusted according to country of destination for cotton textiles and several other manufactured products.

As a rule, when exporters request assistance, it normally is forthcoming on the recommendation of the appropriate government department. The Janata government, which took office in March 1977, has continued this generous policy but plans to require more justification from exporters requesting increased subsidies and broadened coverage. The Minister of Commerce recently observed "that subsidies while necessary to maintain India's competitiveness should not be a premium on inefficiency."

Trade lobbies have been instrumental in obtaining changes in subsidy rates and in determining the coverage of eligible items. These lobbies operate through a variety of government-sponsored organizations, such as export promotion councils, development authorities, and government departments. Uncertainty over the duration of subsidy rates has caused problems for Indian firms, particularly when negotiating long-term

contracts. Exporters have usually asked that the subsidy rates remain unaltered for at least three years; New Delhi has generally fixed rates for one year, except for cotton textiles, where rates are reviewed every six months.

Other measures used by the government to promote exports include:

• A deduction from income taxes of expenditures on export promotion, allowed at the rate of one and one-half times the actual expenditure. Large exporters, because of their high marginal income tax rates, benefit the most.

• Provision of export insurance and preferential credit rates.

• Giving first call on import licenses to assure a steady supply of raw materials and components used in the production process. The premium formerly carried by these licenses in the open market has declined since early 1978 when the government began liberalizing imports.

• Granting exporters a cash refund on excise and custom duties levied on imports of raw materials and components used in manufactured exports.

The benefits of the Generalized System of Preference (GSP) to India have been partially offset by recent rises in nontariff barriers, such as quotas on textiles and clothing. Even so, India has taken full advantage of GSP and has emerged as one of its principal beneficiaries, particularly in West Germany and France. New Delhi has aggressively campaigned for increased GSP coverage of its exports. In 1977, some $550 million worth of its manufactured exports were eligible for GSP treatment, nearly one-tenth of the total benefit accruing to LDCs.

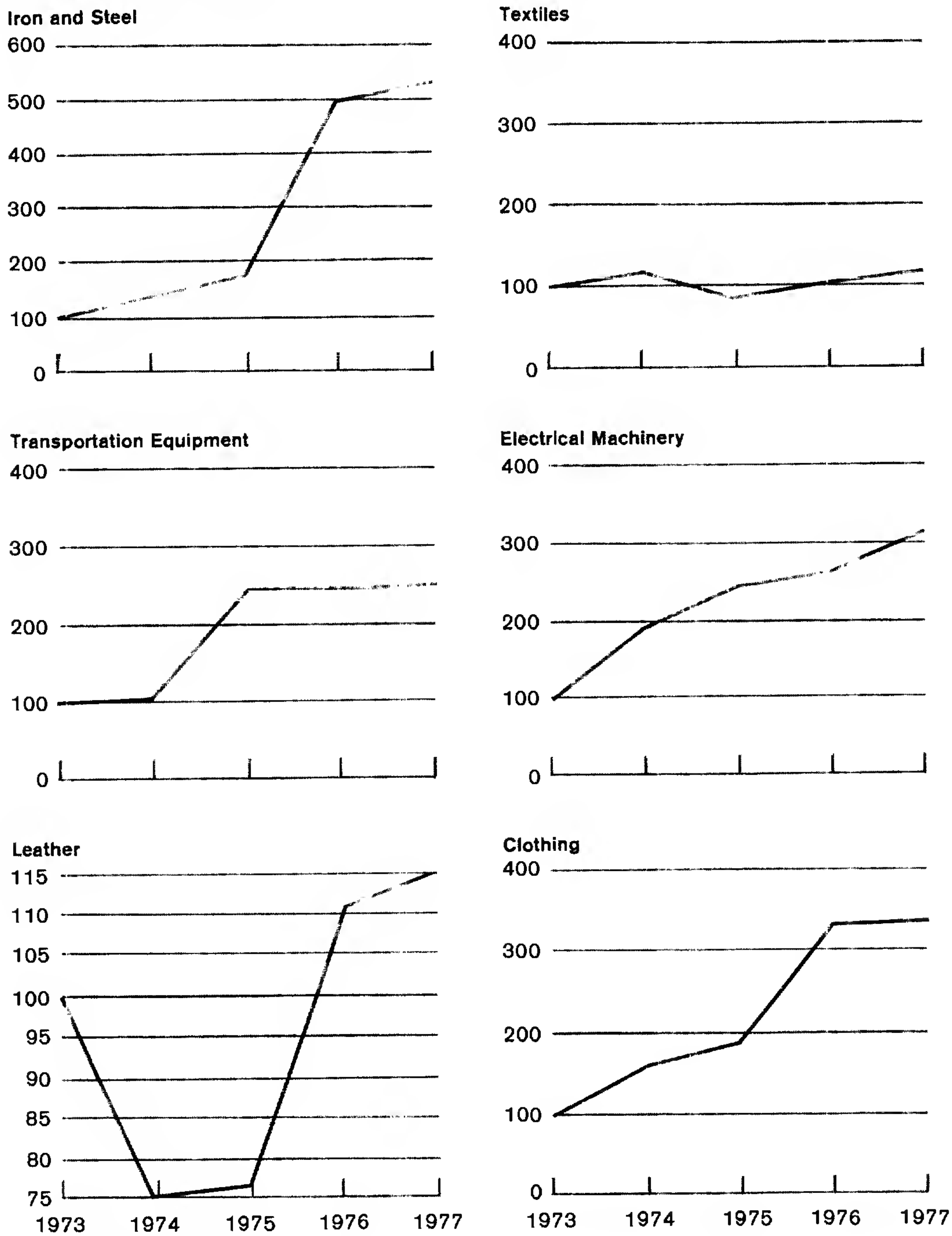
Slow Growth Ahead

We expect India's manufactured exports to grow at 10 to 15 percent annually in the next few years, a pace that would raise foreign sales to about $4.5 billion by the early 1980s. Signs of a slowdown in export growth are already evident, with sales of key exports such as steel, clothing, and leather goods leveling off. The slow-down partly reflects aggressive competition from other LDCs, quota restrictions imposed by developed countries, and a slowing of massive development programs in several Middle East countries.

Not the least of India's short-run difficulties are serious supply bottlenecks, which have recently emerged in the industrial sector. Shortages of electric power, coal, cement, and various steel products, coupled with a resurgence of labor disputes, have hurt manufacturing output this year and have forced the government to import some

India: Commodity Export Trends[1]

Dollar Value Index: 1973=100



1. Note change in scales.

577682 11-78

coal and steel. Delays and late deliveries of steel and other key manufactures to foreign countries are no doubt tarnishing India's reputation as a reliable exporter and may cost future sales.

Over the longer term, the Janata government's shift in economic priorities and development policy would militate against maintaining the export growth pace of the 1970s. During the next few years New Delhi intends to give more emphasis to meeting domestic needs. For example, in allocating steel between firms producing for domestic and export markets, both types of manufacturing firms will now be treated equally; formerly, export-oriented enterprises received priority. More than any previous government, Janata is also stressing expansion of small-scale industry (and agriculture) to provide employment and income for the rural poor. This "trickle up" approach contrasts sharply with government planning in the 1950s and early 1960s which stressed the expansion of heavy industry and laid the foundation for the export growth of the 1970s. [redacted]

25X1

* * * * *

ASEAN STABEX PROPOSAL: COMPLICATION IN COMMON FUND DIALOGUE

The countries of the Association of Southeast Asian Nations (Indonesia, Malaysia, the Philippines, Singapore, and Thailand) are pressing Japan for a new system of compensation for declines in the value of commodity exports. Officials from Japan and the five ASEAN member states met in Jakarta last month to discuss creating some version of the European Community's STABEX system; they are scheduled to meet again in December. These talks, which sandwich the November reopening of Common Fund negotiations, could lead to yet another form of commodity export compensation in what is rapidly becoming a tangled skein of such programs.

Although the Japanese have made no commitments to date, the pressures on them to respond cooperatively are increasing. They could choose to announce financial support for an AESEAN stabex to improve their relations with the Third World before or during the UNCTAD V sessions (scheduled for Manila in May 1979). Meanwhile, preparatory talks on this issue will add another complicating factor to the muddled dialogue on a Common Fund.

Compensation and Stabilization Facilities

Long seized with the notion that shifting terms of trade for commodity exports are at the heart of their trade, payments, and growth problems, a substantial bloc of

LDCs has lobbied through their UN caucus—the Group of 77 (G-77)—for a variety of facilities to offset shortfalls in export earnings. The two basic types of remedies they have pressed for (or have elicited from the developed countries) have been compensation for earnings shortfalls and mechanisms to offset price declines.

The best known examples of earnings compensation include the IMF's Compensatory Financing Facility (CFF) and the European Community's STABEX system. The CFF, established in 1963, has loaned more than $4 billion at concessional rates to LDCs suffering from declines in their overall commodity export earnings. The newer EC STABEX has provided about $200 million in interest-free loans or grants to certain African, Caribbean, and Pacific LDCs for shortfalls in about 20 primary commodity exports; in contrast to CFF loans, these payments occur even if losses on one commodity are offset by gains on others. Especially in the last few years, LDCs have increasingly drawn from one or the other facility.

Devices to stabilize prices include international commodity agreements (ICAs) and the related creation of buffer stocks. The G-77 platform in this area focuses on an Integrated Program for Commodities (IPC) and the Common Fund. Since discussions on the IPC began in 1976, little progress has been made toward new ICAs because of a range of technical and political barriers. The lackluster IPC record repeats the experience of the IMF's Buffer Stock Financing Facility; indeed, only one ICA has made use of the funds in this latter facility since its creation in 1969. These difficulties in creating ICAs and buffer stocks will affect progress toward the Common Fund, negotiations for which resume on 14 November.

Economists at the international financial institutions in the developed countries and—in some instances—even in the LDCs agree that price stabilization is a very blunt instrument for Third World aid. Partly in recognition of this fact, the Germans have been especially eager to drop the Common Fund concept in favor of a broader set of stabex schemes. Recently, they have again been lobbying for a global stabex that they had proposed at earlier stages of the Common Fund dialogue. The other Europeans are not eager to simultaneously finance the EC STABEX, the Common Fund, and the proposed West German global scheme. Nevertheless, a convergence of interests of the Germans and Japanese on stabex proposals could broaden the ongoing discussions of commodity earnings.

The Japan-ASEAN Talks

An expression of interest by the five ASEAN LDCs in a 25-commodity, $500-million facility led to serious discussions on a possible stabex at the Japan-ASEAN summit in August 1977. In the euphoria of that occasion, Prime Minister Fukuda pledged to move forward on proposals for regional commodity arrangements. The first

such detailed proposal—still the only substantive document to emerge from the talks—appeared late in fall 1977 and is under scrutiny by the Japanese. Continuing informal discussions were capped by an "experts" meeting in Jakarta on 29-30 September of this year. At the next formal round, scheduled as part of a Japan-ASEAN conference in December, Tokyo expects to examine answers to a series of probing questions it tabled at the September meeting. Progress at this session is likely to be slow while both sides weigh worldwide developments on the Common Fund and on a variety of bilateral issues.

Some basic differences persist between Japan and the ASEAN countries on stabex issues:

> ***Commodity Coverage.*** The current ASEAN proposal requires compensation for earnings shortfalls in each of 17 commodity lines (including tin, already covered by a commodity agreement, and practically all of ASEAN's major exports except rubber). In this the design differs from the recent West German proposals for broader systems that would base compensation on declines in net earnings from a basket of exports. Japan reportedly is still considering the latter, much less costly basket approach and would, in any event, probably insist on narrowing the set of commodites covered.
>
> ***Financial Base.*** Early in the talks, ASEAN suggested a first round figure of $400 million to $500 million as the likely cost of its stabex scheme. Although financial limits apparently have not been formally discussed, Japan could seek quotas for each country, as in the CFF, or for the entire operation for a period of years, as in the EC STABEX. Alternatively, the financial base could be narrowed by limited commodity coverage, stringent threshold provisions, and hard credit terms. Whatever the arrangement, Japan will probably not allow the maximum financial requirements of the stabex scheme to approach the ASEAN figure.
>
> ***Terms of Compensation.*** In the ASEAN design, earnings shortfalls for exports to Japan trigger compensation in the form of interest-free, unconditional loans. These are to be repaid within five years only if improved export conditions in the affected commodity permit. Japan will probably insist, however, on no better than concessional interest rates and a less open-ended amortization schedule.

Impact and Interests

The stabex talks touch on a variety of economic and political interests. Malaysia, the Philippines, and Thailand—currently major exporters of such commodities as

timber, rice, cassava, coconut and palm oils, tin, and copper—see fairly immediate gains from the proposed arrangement with Japan. Indonesia, whose export earnings are now derived 70 percent from petroleum, faces the propsect of a fairly rapid decline in that share in the 1980s; accordingly, it favors a regional stabex as yet another means of evening out its revenues for development. Singapore, a net importer of most of the commodities proposed for the scheme, would gain less but would not stand in the way of its regional allies. From among this cast, Malaysia and Indonesia—both aspirants for regional political leadership—have shown the most interest in a stabex.

Still clouding discussions of the ASEAN stabex is the unresolved status of the Common Fund. Malaysia, usually the most concerned with commodity exports, publicly endorses the stabex scheme as complementary to a Common Fund and will provide the staff support necessary to pursue both proposals over the next several months. Indonesia, a strong political force in the Common Fund talks, will probably go on playing second to Malaysia in orchestration of the stabex discussions. The other ASEAN countries have shown less interest in both institutions; regional solidarity—such as has moved Thailand to a more aggressive Common Fund stance as this year's regional spokesman—will probably supplement economic interests in keeping the individual countries lined up behind group positions on both fronts.

Outlook

Like West Geman Chancellor Helmut Schmidt, who has pledged to attend a controversial North-South summit in Jamaica this December, Prime Minister Fukuda has shown interest in new ways to reaffirm commitment to Third World and regional goals. Despite the scant achievements of the ASEAN stabex talks so far, Fukuda could step in at the eleventh hour to resolve interministerial differences that now block agreement. Pressure to move in this direction will be greatest over the next few months as both developed and developing countries prepare for UNCTAD V (1979's most important North-South event) and try to compensate for any LDC disappointment from the Common fund talks.

Japanese acceptance of the ASEAN stabex scheme would have serious implications for other facets of the North-South dialogue. Besides giving a new boost to West German arguments for substitution of a global stabex for a Common Fund, it would put heat on the United States (as another major ASEAN trading partner) to finance this additional commodity earnings scheme. Moreover, it would likely stimulate further demands from other LDCs not presently covered by stabex programs.

25X1

* * * * *

SUDAN: ARAB LARGESS BREEDS FINANCIAL PROBLEMS

Sudan is facing several years of severe balance-of-payments constraints on economic growth despite recent IMF help and Arab and Western debt reschedulings. Ironically, the payments bind stems from problems associated with Arab efforts to transform Sudan into a major food supplier. Large Arab aid inflows in recent years have required matching local funds and have often necessitated sizable investment in roads, railroads, and ports. This investment effort has left Khartoum with serious foreign exchange shortfalls and high domestic inflation. Under pressure from Arab creditors, the Numayri government finally has accepted stringent IMF guidelines to moderate its development effort and get its foreign and domestic finances into better shape. While economic growth is likely to average no more than 2 to 3 percent in the next several years, the reform program and increased agricultural yields from new farming and livestock projects should result in a sounder external financial position in the early 1980s.

Agricultural Resources and Arab Interest

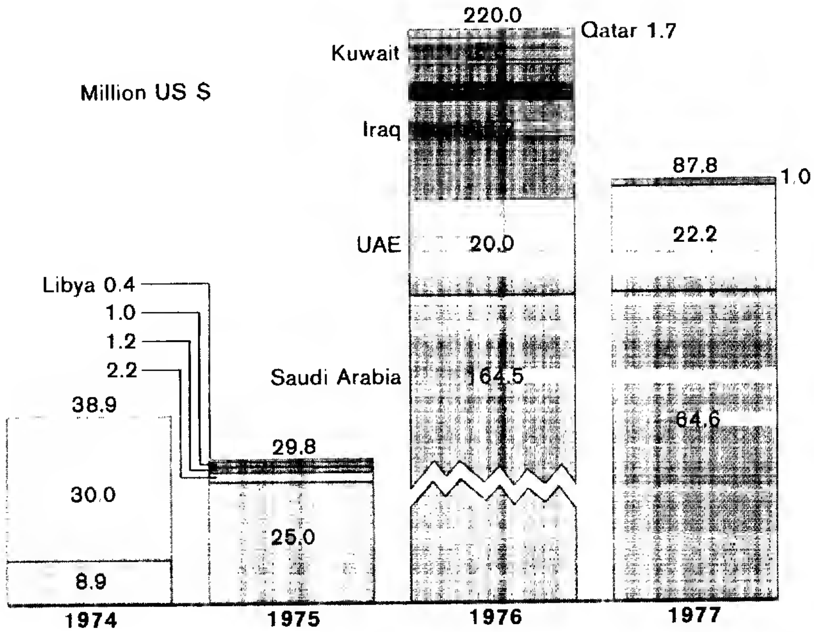
Arab interest in the Sudan lies primarily in the country's considerable agricultural potential. Only 8 percent (6.4 million hectares) of the country's 80 million hectares of cultivable land is farmed. Irrigation from the Nile, which now affects only about one-fifth of the cultivated areas, could be doubled. Cotton from the irrigated land, groundnuts, gum arabic, sesame, and food products are the principal crops.

Talk of Western retaliation against Arab food imports during the 1973/74 oil embargo focused Arab attention on Sudan. In 1976, a plan was formalized by the Arab Fund for Economic and Social Development (a 12-member Kuwaiti-based organization) to combine Arab oil money with Sudanese resources and Western technology to develop Sudan into the "bread basket" of the Arab world. Although this plan has not yet gotten off the ground because inter-Arab rivalries have caused administrative tie-ups, more than $375 million in Arab project aid has been disbursed bilaterally since 1973, helping to support a number of irrigation and other agricultural development projects. Saudi Arabia has been by far the major Arab donor (70 percent), followed far behind by the United Arab Emirates. Total Arab aid was about equal to Western aid in 1974-77.

Balance-of-Payments Problems

The development drive sparked by Arab aid has increasingly strained Sudan's external financial position. A principal problem has been Arab demands for substantial matching funds before aid is disbursed. For instance, Sudan is financing 25 percent of the $270 million cost of the Rahad, one of the country's largest irrigation projects. In

Arab Aid to Sudan[1]



1. Estimated gross disbursements.

577650 10-78

addition, before many of the agricultural and food processing projects can be carried out, Khartoum must develop transportation and communication facilities to overcome potential bottlenecks. Relying on its access to seemingly inexhaustible oil wealth, Sudan has gone overboard in foreign borrowing to help pay for the development program. As a result, foreign debt has risen from $335 million at yearend 1973 to almost $1.5 billion today.

Funding the domestic cost of development has led to a growing budget deficit, which has been financed largely through local bank borrowing. The resulting inflation—25 to 30 percent in fiscal year 1978 (July 1977 - June 1978)—has undermined Sudan's export competitiveness, while outlays for construction projects have added to consumer demand for imported manufactures.

The current account deficit began to escalate sharply in FY 1975, ebbed temporarily in FY 1977, then shot up again in FY 1978. Imports, principally from Western Europe, the United States, and Japan, which reached $935 million by FY 1978, have been increasing steadily in the past year and a half. At the same time,

Sudan: Status of Planned Major Facilities

Infrastructure	Current Status	Foreign Financing (percent)
Jonglei Canal	Ongoing	46
Port Sudan-Khartoum road	Ongoing	43
Railraod modernization	Planning stage	74
Construction of Port Suakin	Planning stage	NA
Sennar-Damazin road	Ongoing	67
Agriculture		
Upper Atbara dam	Planning stage	68
Rahad irrigation project	Ongoing	75
Damazin agricultural and animal production project	Ongoing	40
Khashm el-Girba irrigation project expansion	Ongoing	38
Tea and coffee production in south	Planning stage	47
Industry		
Kenana sugar project	Ongoing	100
Starch and glucose factories	Planning stage	50
Cotton mills	Ongoing	61
Edible oil processing plants	Planning stage	75

export earnings have leveled off, partly because of the government's policy—at odds with the Arab goals of raising Sudan's farm exports—of encouraging import substitution crops at the expense of export crops. Although the value of cotton exports doubled between 1975 and 1977, this was due more to higher world cotton prices than to expanded production; the volume of cotton exports in 1977 was up only 20 percent over the 1975 figure.

Prelude to Reforms

International reserves began falling in 1975 and never recovered. The situation became acute in 1977 when Arab bilateral aid fell 60 percent from the 1976 peak. By mid-1978, reserves had dropped by $100 million, to about $22 million, less than half a month's imports, and arrears on import payments had accumulated to an estimated $850 million. These factors were reflected in Sudan's near-zero credit rating; most major international commercial banks were refusing new letters of credit to the Bank of Sudan.

In July 1978, shortages caused by the severe foreign exchange crunch were compounded by heavy flooding in the Gezira, the country's principal agricultural region. Together, these events threatened the inflow of both capital and consumer goods, while aggravating public unrest. Supplies of petroleum and spare parts, as well

Sudan: Balance of Payments [1]

Million US $

	1975/76	1976/77	1977/78 [2]	1978/79 [3]
Trade Balance	−246	23	−279	−470
Exports, f.o.b.	508	665	656	667
Imports, c.i.f.	754	642	935	1,137
Net services	−63	−49	−29	−70
Current account balance	−309	−26	−308	−540
Debt amortization	−112	−65	−90	−235
Accumulation of arrears [2]	−5	−405	−450	0
Financial gap	−426	−496	−848	−775
Financing the gap	330	499	776	650
Official nonmonetary capital	369	94	287	650
Other capital	−44	0	39	0
Current arrears	5	405	450	0
Change in reserves	−96	3	−72	−125

[1] Imports are understated because data exclude remittances of consumer goods by Sudanese working abroad; these are included under "Net services." Data are for fiscal years, July-June.
[2] Estimated.
[3] Projected.

as fertilizers and insecticides essential for the cotton crop, became critically short. Iraq and Kuwait interrupted shipments of petroleum several times when Sudan was unable to keep arrearages from rising. Both industry and rail transportation were running at roughly half capacity for lack of equipment and spare parts.

Economic Reforms

In mid-1978, Khartoum finally accepted under heavy Arab pressure an IMF austerity regimen to ease Sudan's financial problems. The program includes:

- A 20-percent devaluation, announced last June.
- A reduced rate of increase in government current expenditures.
- A trimming of development expenditures.
- A reversal of government policy in favor of export crops, particularly cotton, at the expense of import substitutes such as wheat.

In return, the IMF has approved two loans worth $63 million. Negotiations for a formal standby agreement are scheduled for later this fall, at which time Sudanese compliance with the first part of the agreement will be reviewed.

The IMF accord has opened the way for massive assistance from other sources. Saudi Arabia subsequently provided a $300 million loan to purchase crude oil and another $50 million for balance-of-payments support. Other donors have committed balance-of-payments support of $238 million. In addition, Saudi Arabia and Kuwait have rescheduled their share of Sudan's official debt on highly favorable terms. European nations have rescheduled $150 million in official obligations, and Western commercial banks have rescheduled $280 million to $300 million in private loans.

Sudan: Recent Aid Commitments

	Million US $
Total	588
Saudi Arabia	350
Arab Monetary Fund	16
IBRD	25
Kuwait	19
Abu Dhabi	10
France	22
Germany	42
Japan	15
IMF	63
IMF compensatory financing	26

More Problems Ahead

Although the total of new loans and debt relief—more than $1 billion—readily covers the $540 million current account deficit projected for FY 1979 and eases the immediate debt amortization squeeze, the need for economic austerity will not diminish. A time lag of at least two years can be expected before the exchange rate adjustment and the tightened fiscal policies have positive effects on the balance of payments. Even the IMF-sponsored incentives to boost exports, which include a restructuring of costs and prices, will take considerable time to bear fruit.

Last July's floods will further slow recovery of the Sudanese financial position, helping to keep exports flat. Although 95 percent of the 1978/79 cotton crop reportedly has been replanted, Khartoum must still find financing for fertilizers and insecticides to replace those used on the flooded crop. Despite the receipt of $26 million from the IMF to cover an estimated one-third of the export short-fall resulting from the flooding, damage to the transportation system will hamper growth through FY 1979. These problems, together with internal and external financial constraints, probably will hold GNP growth to 2 to 3 percent for the next couple of years.

25X1

CUBA: CITRUS DEVELOPMENT THREATENS WORLD MARKETS

Cuba is undertaking a massive expansion of its infant citrus industry aimed, at least initially, at boosting export earnings from CEMA countries. Realization of production goals would enable Cuba by the mid-1980s to capture at least half of the rapidly growing CEMA market for fresh citrus. This market, which takes nearly one-sixth of the $2 billion in world exports, now is supplied mainly by Mediterranean countries. As Cuban shipments gain ground in CEMA, the Mediterranean suppliers will likely focus on the EC, increasing the difficulties for US growers in this latter market.

Citrus Development Goals

Cuba's citrus industry produced only 270,000 tons last year. Trees already planted, however, should yield crops of 550,000 tons by 1980 and 1.7 million tons by 1985. By 1985, even if Cuban citrus consumption should reach the targeted level of 60 kilograms per person per year—the world's highest—more than 1 million tons would be available for export. (World exports last year were roughly 7 million tons.) Realization of its 1985 production and export goals would enable Cuba to compete with the United States for the rank of second leading exporter of fresh citrus, after Spain.

25X1
25X1
[redacted] Basic orchard units encompass 500 hectares; these are combined into farms of up to 28,000 hectares. Integrated with the new farms are secondary boarding schools—one 500-student school for each 500 hectares—whose students devote several hours a day to citrus cultivation and harvesting. Nearly 118,000 hectares already have been planted at a rate approaching 10 million trees a year. Most of the land developed for citrus cultivation is unsuitable for other crops.

Cuban professional staffs appear to be well trained, though lacking experience. Rapid improvement in disease control and cultivation techniques have been noted, and the Cubans are believed capable of achieving their ambitious production goals.

25X1
[redacted] the Cubans have been obtaining (through third country channels) ample supplies of all varieties of select US root stock, the world's best, and will therefore be producing a full line. The Cubans are besieging US growers and universities with requests for technical assistance while giving assurances that Cuba, with its output earmarked for CEMA nations, will not be a competitor of the United States.

Although the Cubans are aiming primarily at the fresh citrus market, they are also developing a processing capability. The two existing plants have a current processing capacity of 450 tons a day. A third plant is to be completed next year, and 12 more plants are planned for the next six years. A complete line of byproducts also is planned.

The CEMA Market

CEMA countries represent a large and rapidly growing market for fresh citrus. Their imports have grown an average 7 percent annually since 1970, compared with a growth rate of 3.4 percent for world citrus trade. At this rate, CEMA's citrus imports could double to about 2 million tons by 1985. Until the early 1980s, much of the increased demand will be supplied by the Mediterranean producers.

Cuba sees in citrus a means of diversifying and expanding its limited export potential. Moreover, shipments to CEMA will help repay long-term industrial development aid. Although CEMA countries will prefer Cuba as a supplier to save on hard currency, sales by Mediterranean producers should not decline before 1984. If Cuba allocated a larger share of output to exports, Mediterranean losses would occur earlier. Italian citrus growers would be hurt the most; they now count on CEMA for three-fourths of their foreign citrus sales. Greece also would feel the impact; CEMA took two-thirds of Greek citrus exports in 1976. Other Mediterranean citrus exporters for whom CEMA has been a major market include Algeria (100 percent), Morocco (40 percent), Egypt (39 percent), and Turkey (30 percent).

In the longer run, Cuba's citrus export capability will likely outstrip CEMA demand. By 1985, Havana intends to have 200,000 hectares of citrus groves, the equivalent of two-thirds of Florida's citrus acreage. These groves should yield an export volume of 6 million to 8 million tons by the mid-1990s; CEMA demand is projected to reach less than 4 million tons in 1985.

Impact on US Growers

Cuban citrus development could have a substantial impact on the US citrus industry. Even if Cuba failed to gain access to the US market, the industry could be hurt by sales to third country markets. The major threat could come from inroads into US sales to the EC, now one-fourth of the US total. As Mediterranean countries are squeezed from the CEMA citrus market in the early 1980s, they can be expected to push sales to EC nations. Cuba probably would divert sales from CEMA to the EC, as well as to Japan and Canada, only if hard currency needs became pressing.

Cuban citrus has some marked climatic advantages over US citrus. The Cuban fruit ripens up to three months earlier and is rarely hurt by the frosts that periodically decimate US citrus crops. Citrus production in the United States has leveled off since 1971 despite growing international demand. [redacted] 25X1

* * * * *

CUBA: NEW AFRICAN/MIDEAST AIR LINKS PLANNED *

Cubana Airlines, Cuba's national air carrier, plans to expand its network of international services in the near term to several countries on the African continent—Algeria, Ethiopia, Equatorial Guinea, Libya, and Mozambique—as well as to Iraq in the Middle East. Other points of service at a future date may include Syria and South Yemen. Cubana has tentatively scheduled the first phase of new services to begin in January 1979, about the same time that the airline reportedly will receive additional Soviet transport aircraft, including two long-range IL-62s. The expansion in airline service fits in with the extensive Soviet and Cuban involvement in African political and military affairs.

The New Services

Havana has not indicated any specific routes for the proposed service. We believe one possibility for three of the countries to be served would be a Havana-Algiers-Tripoli-Baghdad flight, which might include a refueling stop in Las Palmas in the Canaries. As for Equatorial Guinea and Mozambique, the most likely route would be an intermediate stop at Malabo in Equatorial Guinea on the existing route to Luanda, with operations beyond to Maputo, Mozambique. Any formal service to Addis Ababa could either operate as an extension of new service to north Africa or as an extension of some added service to Luanda.

In addition to the broad Cuban military participation in the Horn and in southern Africa, political relations between Havana and each of the countries to be served have warmed perceptibly in the past few years. The increased contacts have led to plans for expanding technical assistance, particularly to Iraq, Libya, and Mozambique. Because of these improving ties, the Castro government decided to augment its slender air links with friendly countries in the area.

Havana probably is optimistic in indicating its intention to inaugurate all these services by January, especially to those countries where a route requires a time-

* This article was produced jointly by the Office of Economic Research and the Office of Regional and Political Analysis.

consuming request for overflight rights. We do not know of any particular overflight requests by Cuba at this time.

Factors Behind Expansion

Cuba's economic relations with these countries, while still relatively small, have increased considerably over the past few years. For example, Cuban sugar exports to Algeria, Libya, Iraq, and Ethiopia have nearly quadrupled since 1974 to over 250,000 tons—about 15 percent of Cuba's total sugar exports to the world free market in 1978. These sugar sales have helped offset Cuba's serious shortage of hard currency. These earnings, coupled with the probable hard currency payments for Cuban technical assistance from at least some of the more prosperous Arab states, make many of these countries of increasing importance to Cuba.

In addition to these commercial ties, the Castro government doubtless plans to use the new airlink to Addis Ababa to rotate troops—many of whom will soon have completed a year's service in Ethiopia. The new service will also allow the transport of civilian advisers, as part of Cuba's recently finalized plans to establish a large technical assistance program in Ethiopia. Similarly Havana is in the process of sending large numbers of public health and other technical specialists to Iraq and Libya and is expanding considerably in its development assistance to Mozambique.

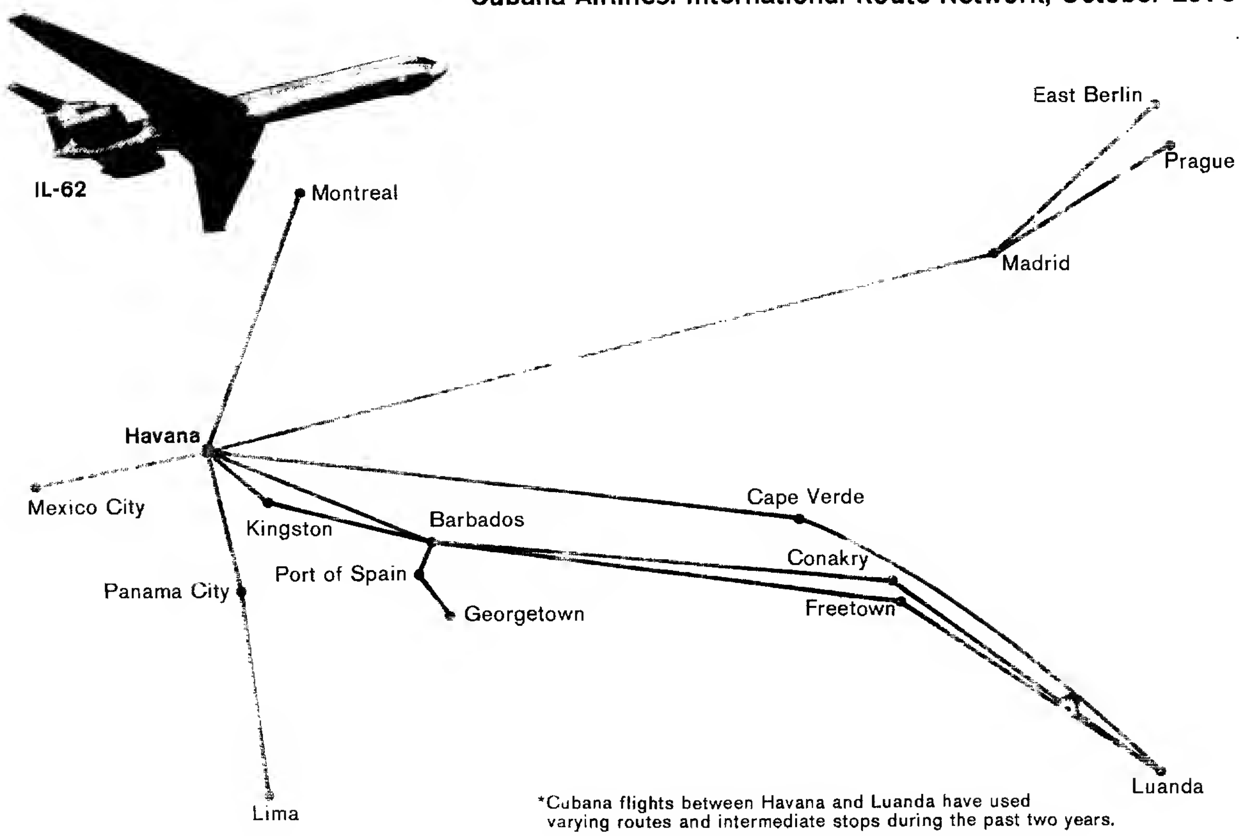
Current Network

Cubana now operates 14 scheduled international flights weekly, to 15 foreign cities over a route network of 27,500 nautical miles. With Havana as the hub, the service features routes to Europe and the Caribbean, with additional flights to Canada and black Africa. In Europe, IL-62 flights operate three times a week to Madrid, one of the flights going beyond to East Berlin and another to Prague. A Havana-Montreal flight operates twice weekly, also using IL-62s.

Service to Latin America includes weekly flights between Havana and Mexico City and between Havana and Lima via Panama City. In the Caribbean, Cubana has twice weekly turboprop IL-18 flights to Kingston; one of the flights continues on to Barbados, Port of Spain, and Georgetown.

Scheduled Cubana operations to Africa amount to little at present. In addition to a twice weekly IL-62 flight between Havana and Luanda (with a stopoff at Cape Verde), occasional flights have been made to Luanda via either Conakry or Freetown. These flights have expedited the flow of Cuban military, technical, and general support personnel into the military confrontation arena. 25X1

Cubana Airlines: International Route Network, October 1978*



*Cubana flights between Havana and Luanda have used varying routes and intermediate stops during the past two years.

577677 11-78

25X1

[redacted] The announced new service to Iraq would give recognition to this nation's ties to Soviet and Cuban aspirations both in the Mideast and on the African continent.

Aircraft Inventory

Cubana's civil air fleet has been expanded and modernized over the past 12 months through the purchase of four Soviet-built IL-62 jets * for longer haul international services, and more recently, through the purchase of six YAK-40 trijets

* For several years previous, Havana had leased one to three IL-62s complete with crews.

Cuba's Transport Aircraft Inventory

	Number
Jet	10
IL-62	4[1]
YAK-40	6
Other	28
IL-18	4
Bristol-Britannia	4
IL-14	11
AN-24	9

25X1 [redacted]

for domestic service. The Cubana inventory of major transport aircraft is shown in the table.

[redacted] 25X1

* * * * *

Note

Vietnam's Military Demands Add to Economic Woes

Sporadic fighting on the Cambodia border since late last year and recent moves to improve defensive capabilities along the northern border with China are further hampering Vietnam's postwar economic recovery.* Since the 1975 takeover, the economy has been hobbled by bureaucratic inefficiency, lack of skilled managers, absence of production incentives, a poorly developed infrastructure, and unusually bad weather affecting agricultural production.

[redacted] 25X1

The situation along both borders has diverted troops from their major postwar reconstruction and development role. The military was to provide much of the manpower, security, and equipment to open up Vietnam's agricultural frontier so that food production could be boosted. Many important—but not crucial—land reclamation, irrigation, and rail and road projects are being delayed.

The military situation is also occupying much of the time and energy of Vietnam's thinly stretched government leaders, slowing the functioning of the centrally planned economy. Hanoi officials have been unable to give full attention to difficult decisions on foreign economic relations and on domestic economic policies. Consequently, implementation of foreign aid projects is lagging and needed economic reforms are being delayed.

The heightened readiness along the border so far has required only small additional budgetary outlays for military pay, food, and equipment. Deliveries of military aid from the USSR this year are up slightly but are still well below those noted during the Vietnam war. We have no evidence that priority military shipments are substantially displacing the transport of civilian goods through Vietnam's already overtaxed ports. In some cases, however, transport equipment intended for foreign-financed aid projects has been commandeered by the military.

25X1

Secret

Approved For Release 2004/07/28 : CIA-RDP80T00702A000900050002-5

National
Foreign
Assessment
Center

Economic Indicators Weekly Review

2 November 1978

ER EI 78-044
2 November 1978

This publication is prepared for the use of U.S. Government officials. The format, coverage and contents of the publication are designed to meet the specific requirements of those users. U.S. Government officials may obtain additional copies of this document directly or through liaison channels from the Central Intelligence Agency.

Non-U.S. Government users may obtain this along with similar CIA publications on a subscription basis by addressing inquiries to:

Document Expediting (DOCEX) Project
Exchange and Gift Division
Library of Congress
Washington, D.C. 20540

Non-U.S. Government users not interested in the DOCEX Project subscription service may purchase reproductions of specific publications on an individual basis from:

Photoduplication Service
Library of Congress
Washington, D.C. 20540

Approved For Release 2004/07/28 : CIA-RDP80T00702A000900050002-5

FOREWORD

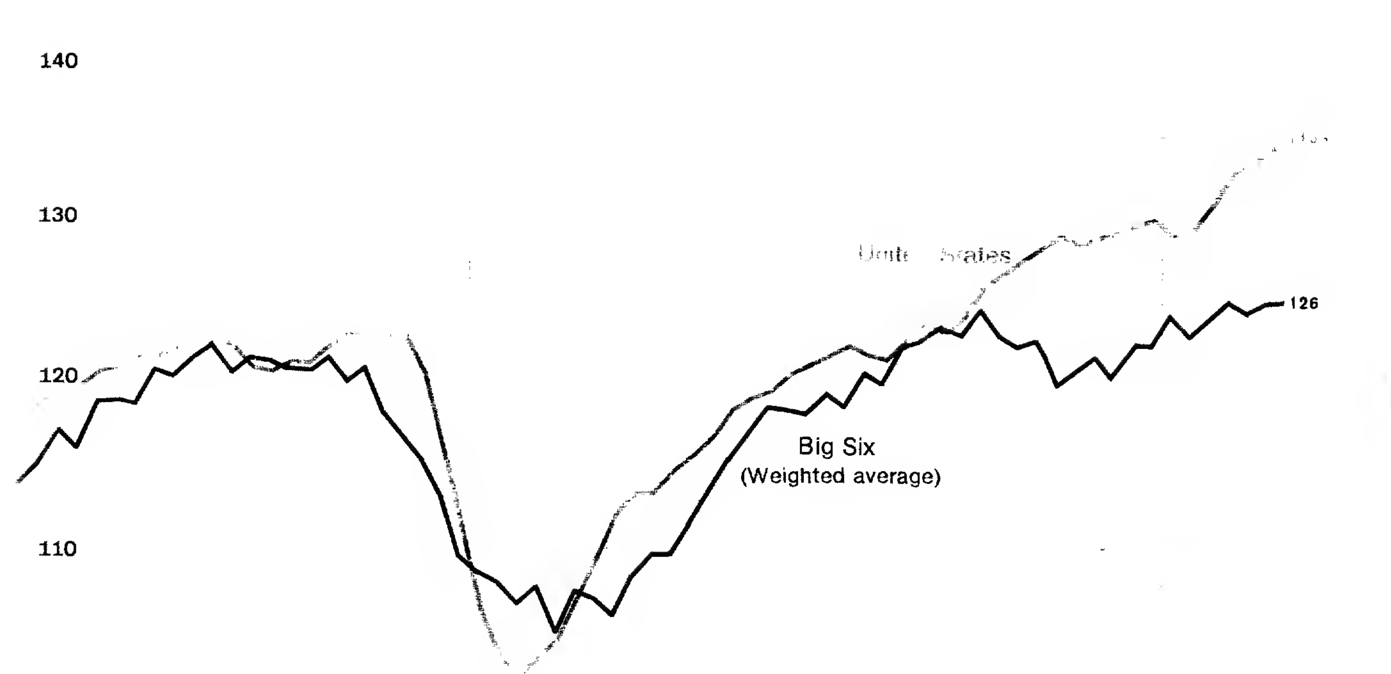
1. The **Economic Indicators Weekly Review** provides up-to-date information on changes in the domestic and external economic activities of the major non-Communist developed countries. To the extent possible, the **Economic Indicators Weekly Review** is updated from press ticker and Embassy reporting, so that the results are made available to the reader weeks—or sometimes months—before receipt of official statistical publications. US data are provided by US government agencies.

2. Source notes for the **Economic Indicators Weekly Review** are revised every few months. The most recent date of publication of source notes is 16 February 1978. Comments and queries regarding the **Economic Indicators Weekly Review** are welcomed.

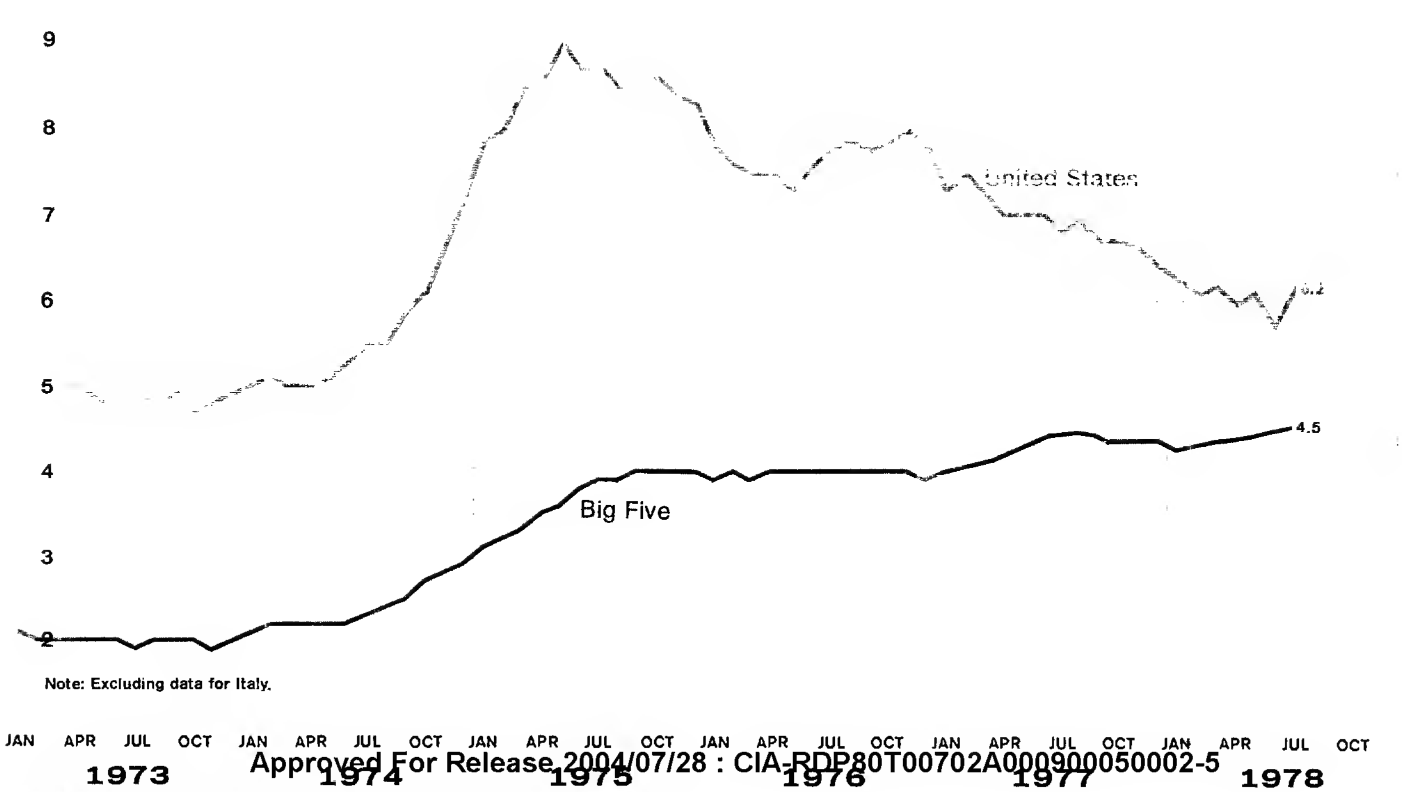
BIG SIX FOREIGN COUNTRIES[1] COMPOSITE INDICATORS

Industrial Production **INDEX: 1970=100, seasonally adjusted**

Semilogarithmic Scale



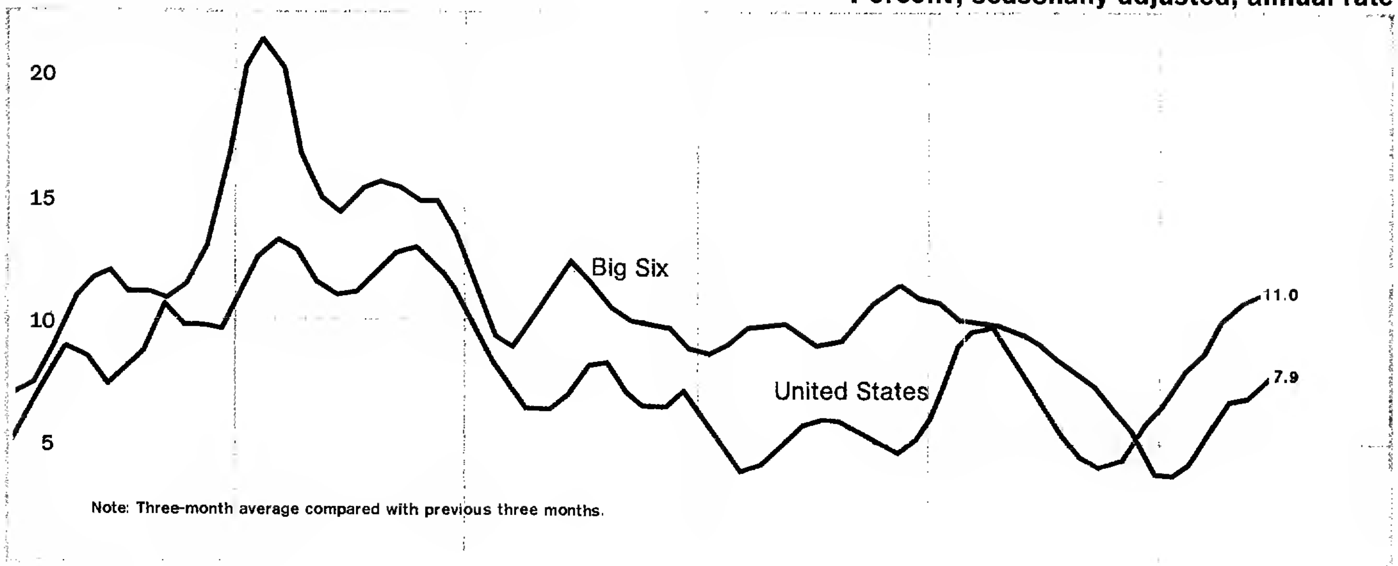
Unemployment Rate **Percent**



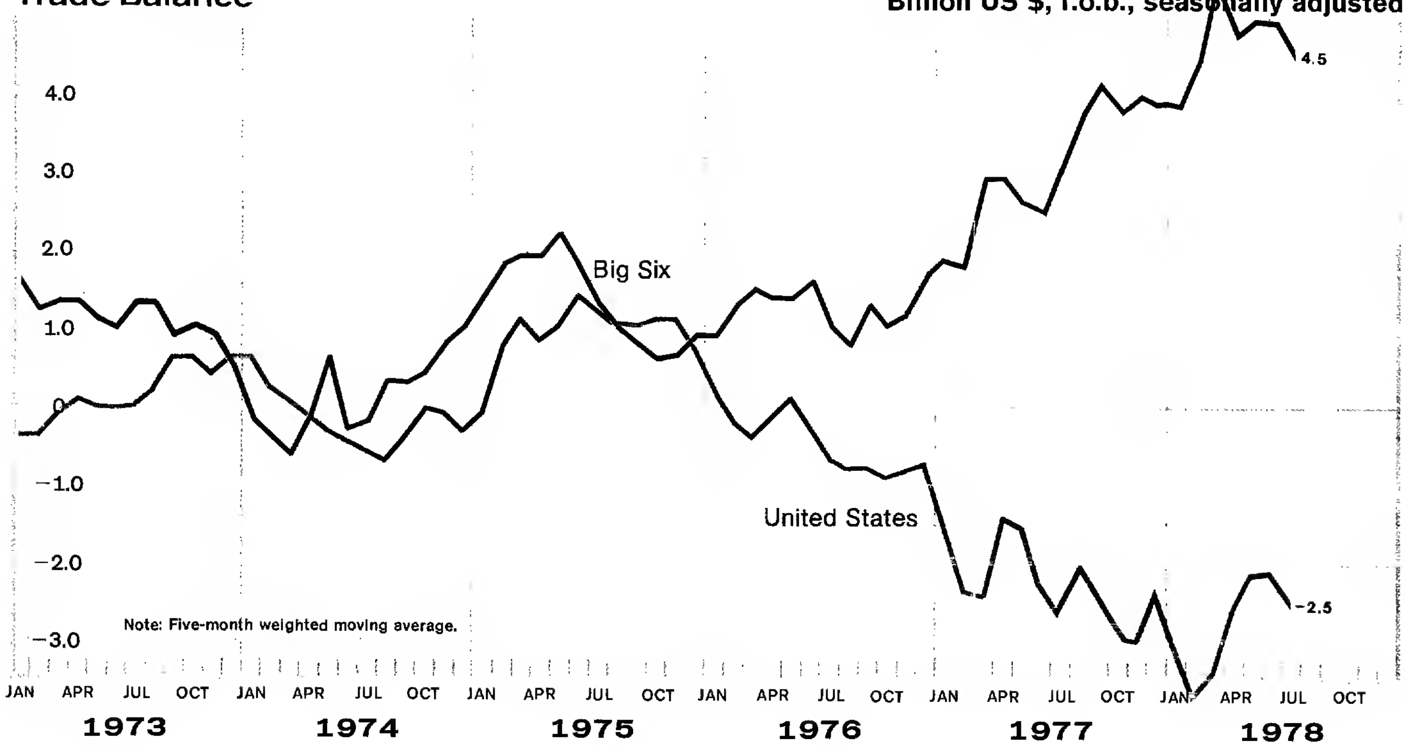
Note: Excluding data for Italy.

[1] Including Japan, West Germany, France, the United Kingdom, Italy, and Canada.

Consumer Price Inflation — Percent, seasonally adjusted, annual rate



Trade Balance — Billion US $, f.o.b., seasonally adjusted



	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE 1970	1 Year Earlier	3 Months Earlier[2]
Industrial Production					
Big Six	JUL 78	0.5	3.0	4.8	3.7
United States	JUL 78	0.7	3.8	5.2	11.2
Consumer Prices					
Big Six	JUL 78	0.9	9.2	6.6	7.9
United States	JUL 78	0.7	6.8	7.7	11.0

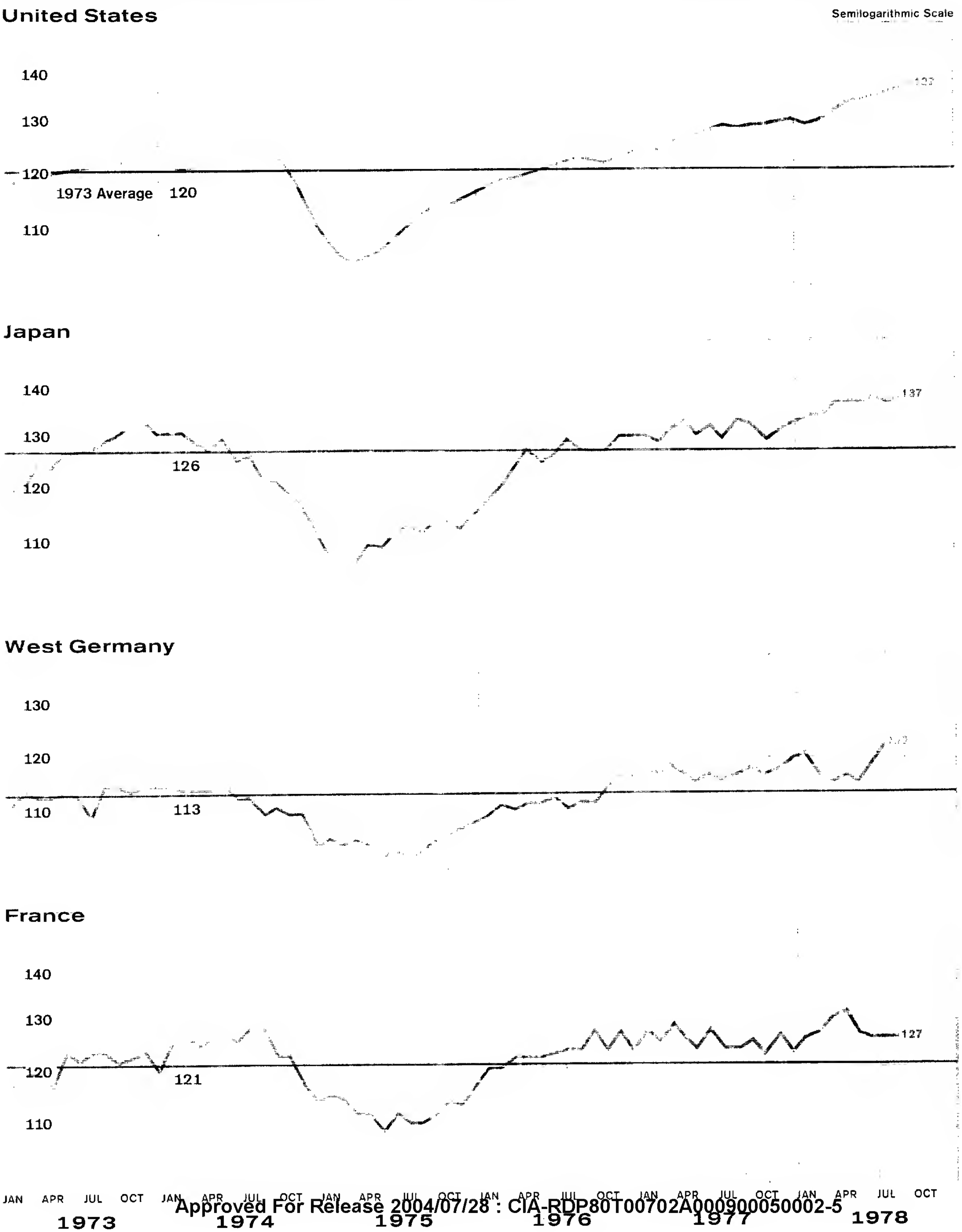
Unemployment Rate	LATEST MONTH		1 Year Earlier	3 Months Earlier
Big Five	JUL 78	4.5	4.4	4.4
United States	JUL 78	6.2	6.9	6.0

	LATEST MONTH	MILLION US $	CUMULATIVE (MILLION US $) 1978	1977	Change
Trade Balance					
Big Six	JUL 78	3,146	31,681	16,184	15,497
United States	JUL 78	−2,987	−19,355	−13,623	−5,732

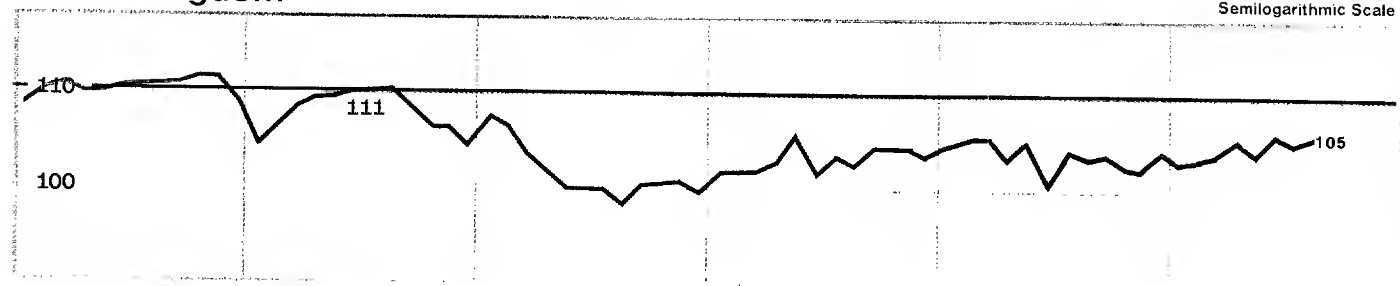
[2]Average for latest 3 months compared with average for previous 3 months, seasonally adjusted at annual rate.

577669 11-78

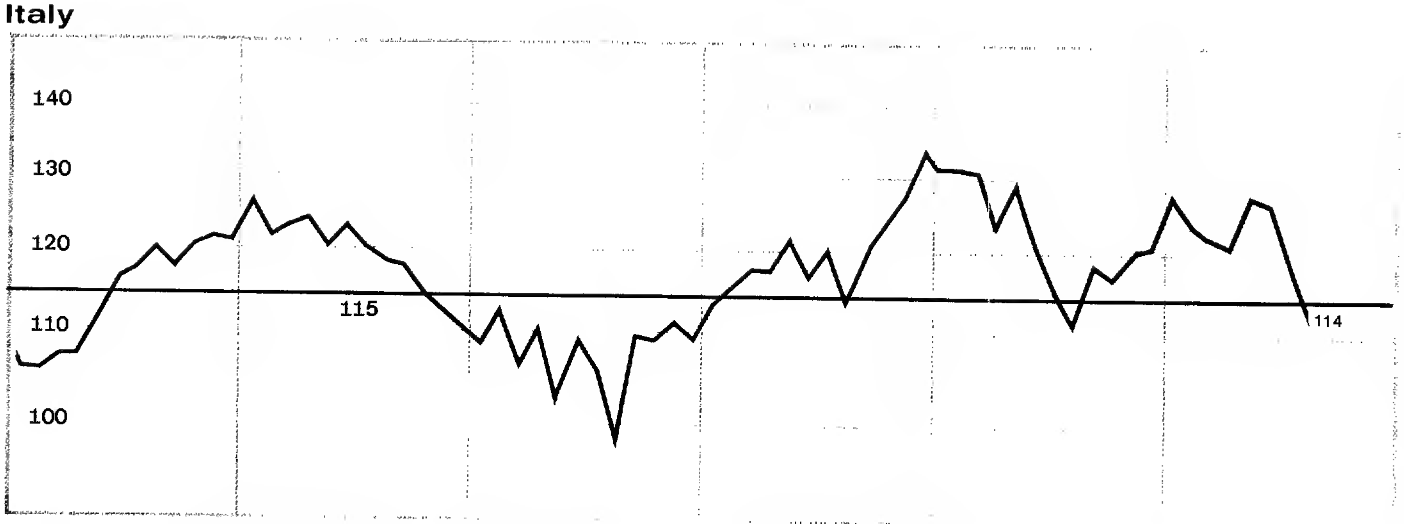
INDUSTRIAL PRODUCTION INDEX: 1970=100, seasonally adjusted



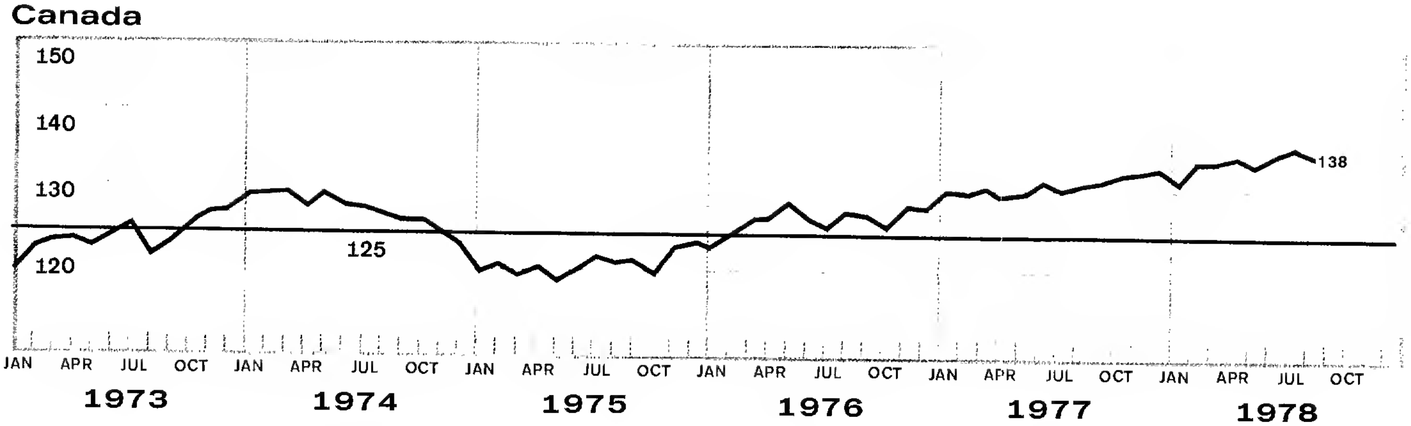
United Kingdom



Italy



Canada



	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE		
			1970	1 Year Earlier	3 Months Earlier[1]
United States	SEP 78	0.5	3.9	6.5	7.7
Japan	AUG 78	0.8	4.0	5.5	1.3
West Germany	JUL 78	3.4	2.5	6.1	9.5
France	AUG 78	0	3.0	1.6	−7.1

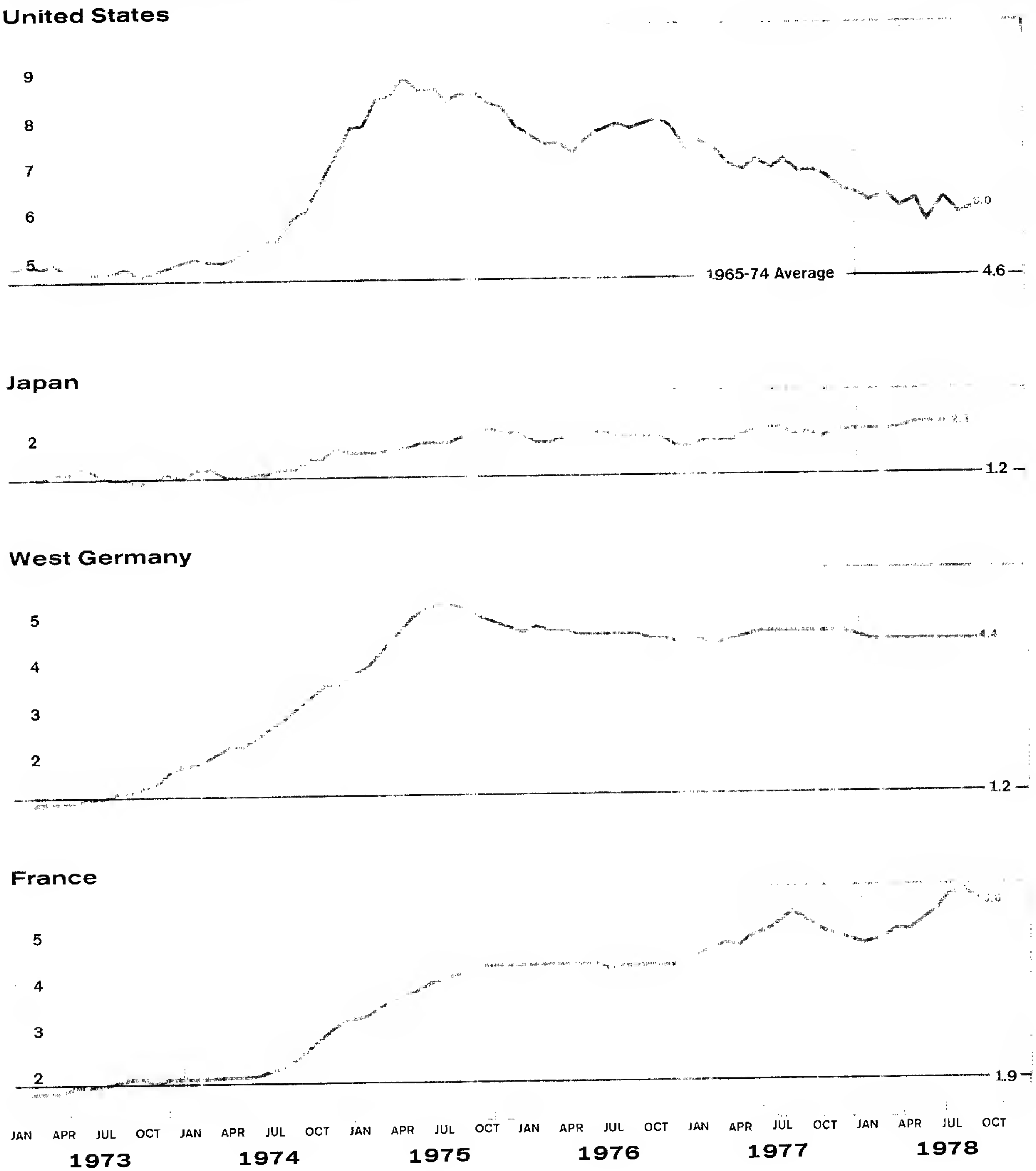
	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE		
			1970	1 Year Earlier	3 Months Earlier[1]
United Kingdom	AUG 78	0.9	0.6	1.2	5.0
Italy	AUG 78	−5.4	1.6	1.7	−11.3
Canada	AUG 78	−0.8	4.1	3.8	3.6

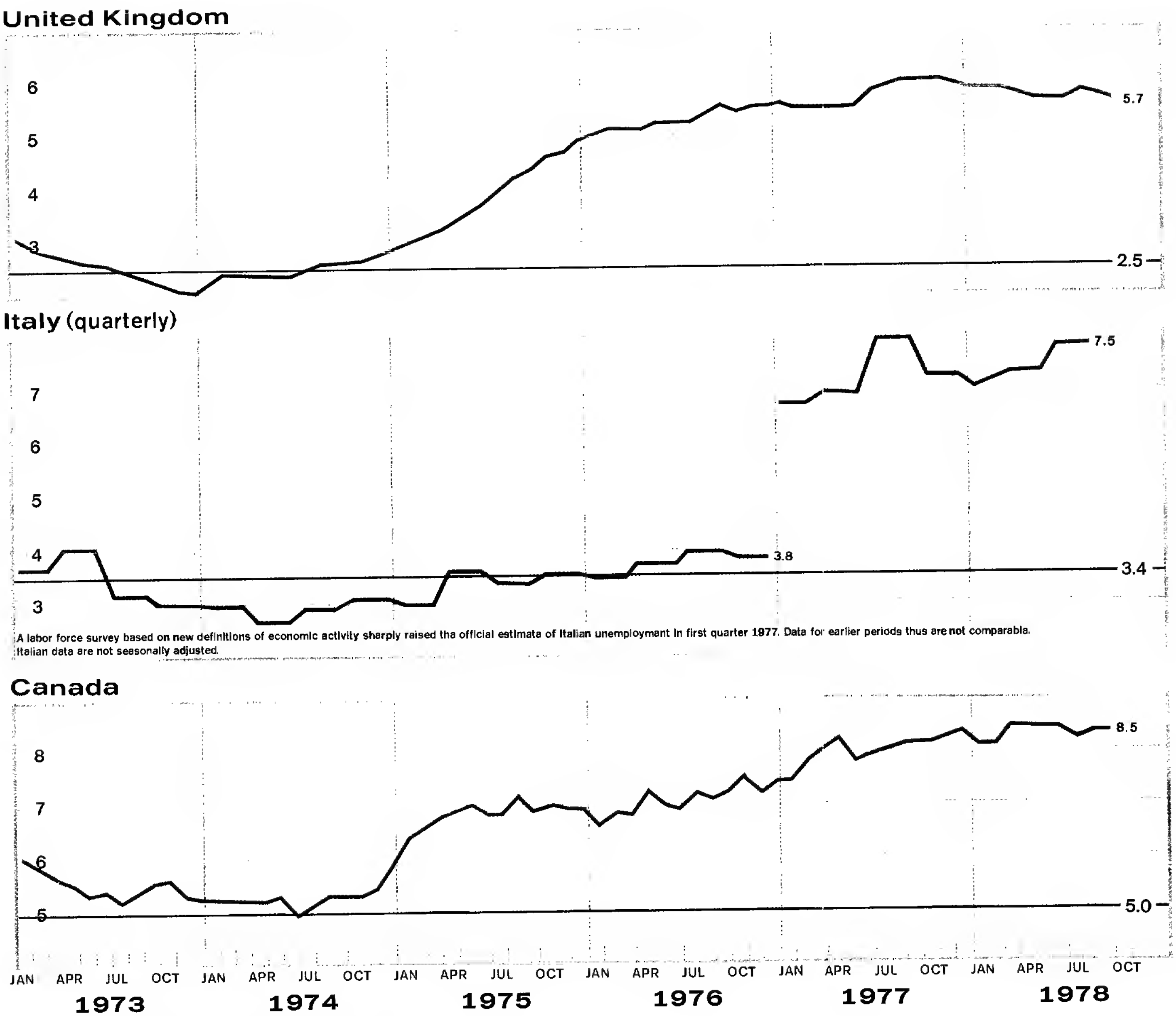
[1]Average for latest 3 months compared with average for previous 3 months.

577668 11-78

UNEMPLOYMENT RATE

PERCENT





THOUSANDS OF PERSONS UNEMPLOYED

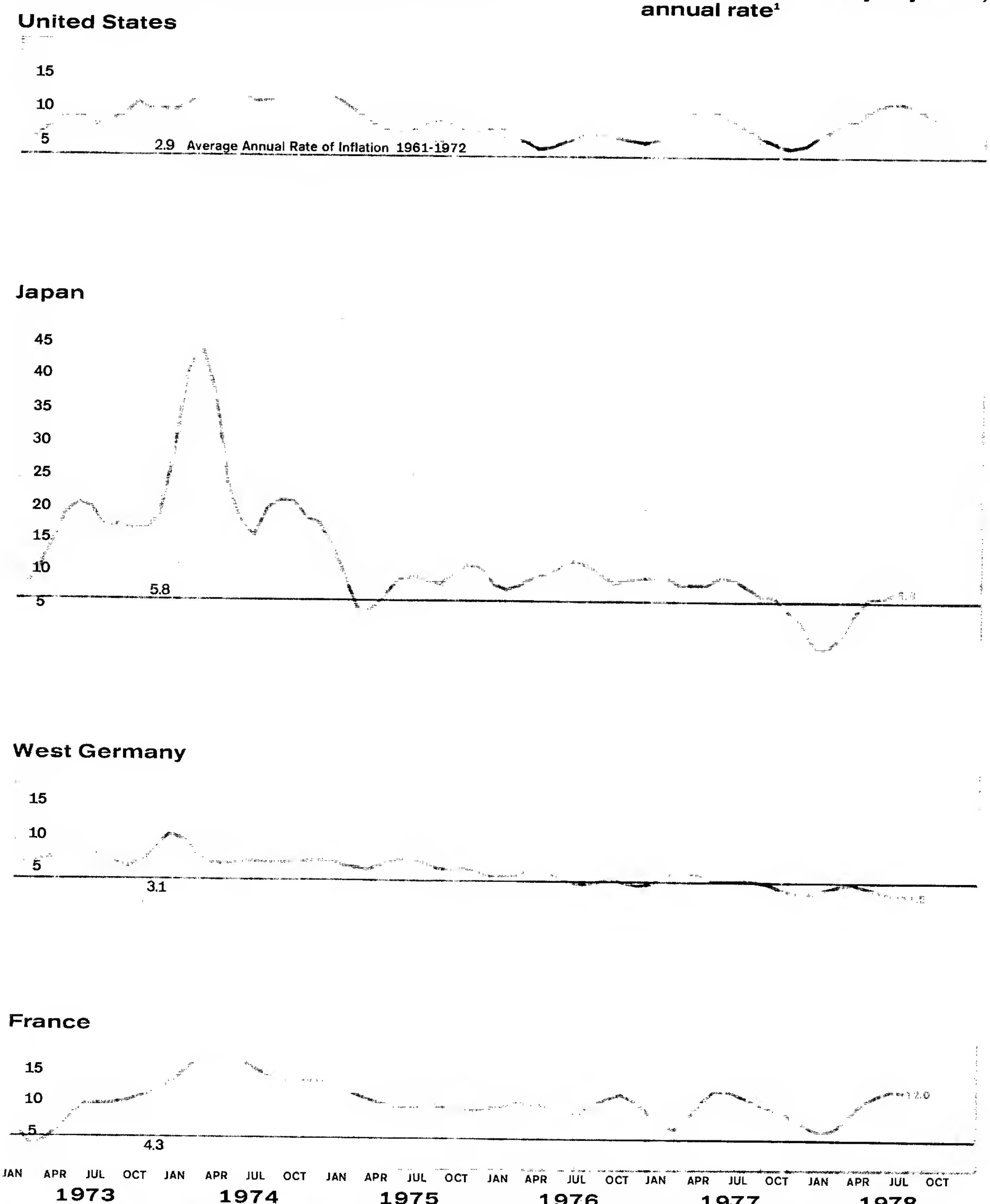
	LATEST MONTH		1 Year Earlier	3 Months Earlier
United States	SEP 78	6,002	6,668	5,754
Japan	JUL 78	1,260	1,200	1,220
West Germany	SEP 78	986	1,035	986
France	SEP 78	1,235	1,132	1,186
United Kingdom	OCT 78	1,360	1,432	1,371
Italy	78 III	1,658	1,692	1,455
Canada	SEP 78	946	887	944

NOTE: Data are seasonally adjusted. Unemployment rates for France are estimated. The rates shown for Japan and Canada are roughly comparable to US rates. For 1975-78, the rates for France and the United Kingdom should be increased by 5 percent and 15 percent respectively, and those for West Germany decreased by 20 percent to be roughly comparable with US rates. Beginning in 1977, Italian rates should be decreased by 50 percent to be roughly comparable to US rates.

577672 11-78

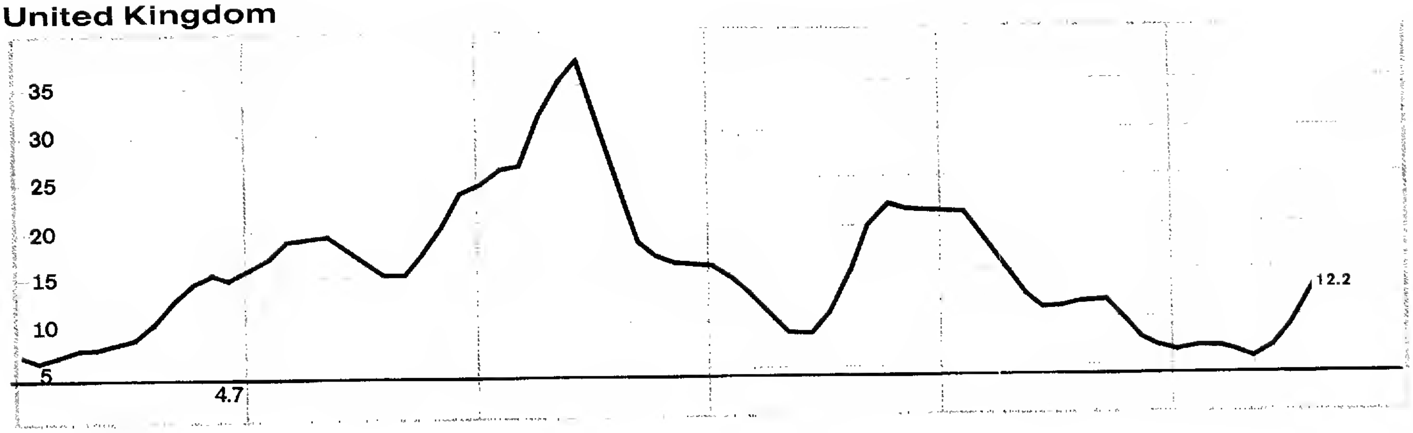
CONSUMER PRICE INFLATION

Percent, seasonally adjusted, annual rate[1]

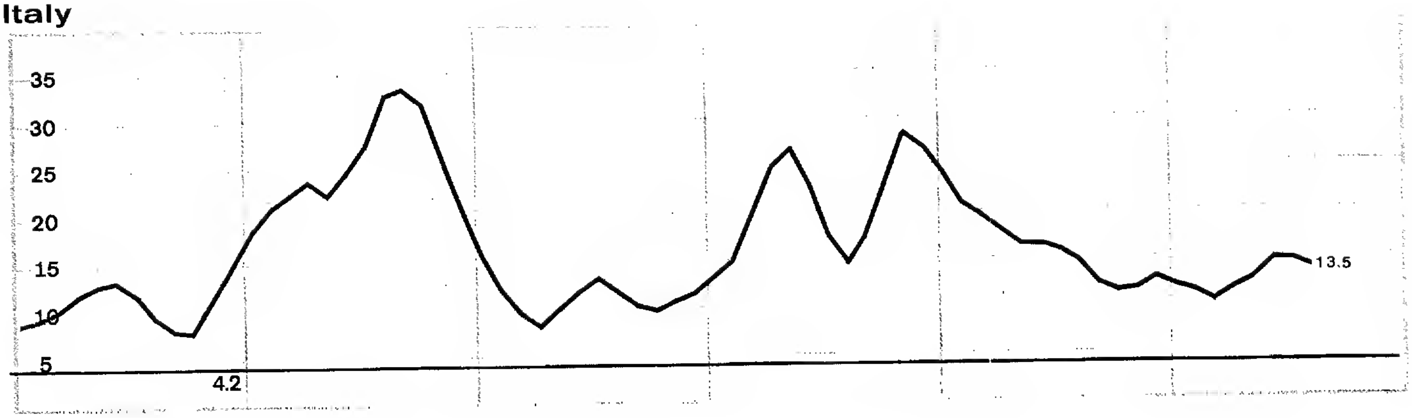


[1]Three-month average compared with previous three months.

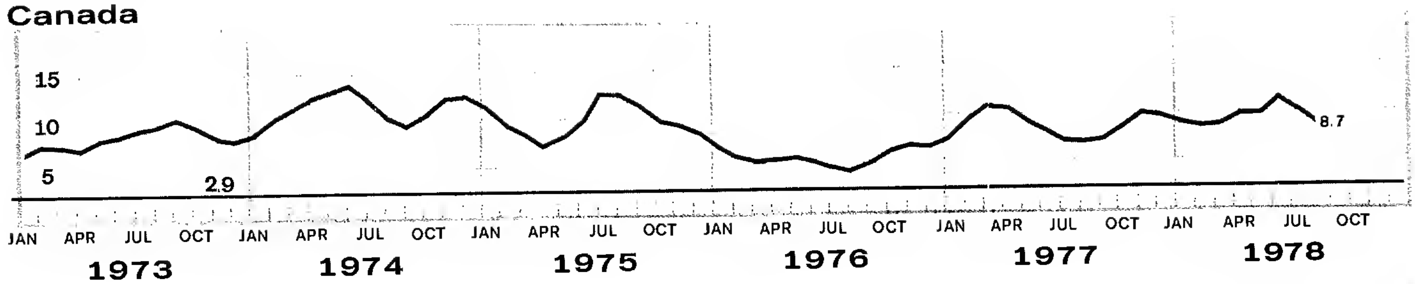
United Kingdom



Italy



Canada



	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE 1970	1 Year Earlier	3 Months Earlier[2]
United States	SEP 78	0.8	6.8	8.3	9.1
Japan	JUL 78	0.7	9.8	4.1	6.8
West Germany	AUG 78	0.1	5.1	2.1	1.5
France	AUG 78	0.7	9.1	9.4	12.0

	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE 1970	1 Year Earlier	3 Months Earlier[2]
United Kingdom	SEP 78	0.9	13.2	7.8	12.2
Italy	SEP 78	1.0	13.1	12.2	13.5
Canada	SEP 78	0.1	7.6	8.6	8.7

577671 11-78

[2]Average for latest 3 months compared with average for previous 3 months, seasonally adjusted at annual rate.

GNP [1]

Constant Market Prices

	Latest Quarter	Percent Change from Previous Quarter	Average Annual Growth Rate Since 1970	1 Year Earlier	Previous Quarter
United States	78 II	1.8	3.2	4.0	7.4
Japan	78 II	1.1	5.4	5.3	4.4
West Germany	78 II	2.1	2.7	4.2	8.8
France	78 I	1.8	4.1	1.4	7.4
United Kingdom	77 IV	−0.5	1.6	−1.1	−1.9
Italy	78 I	2.0	2.8	−0.8	8.2
Canada	78 II	1.1	4.7	3.7	4.5

[1] Seasonally adjusted.

RETAIL SALES [1]

Constant Prices

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier [2]
United States	Jul 78	−0.3	3.1	3.5	1.9
Japan	Apr 78	4.0	9.9	4.3	24.8
West Germany	Jun 78	1.6	2.6	3.3	−3.2
France	Jan 78	9.9	0	1.0	10.5
United Kingdom	Sep 78	−1.2	1.3	6.8	12.8
Italy	May 78	12.1	3.5	3.5	12.1
Canada	Aug 78	3.7	4.1	1.3	1.1

[1] Seasonally adjusted.
[2] Average for latest 3 months compared with average for previous 3 months.

FIXED INVESTMENT [1]

Nonresidential; constant prices

	Latest Quarter	Percent Change from Previous Quarter	Average Annual Growth Rate Since 1970	1 Year Earlier	Previous Quarter
United States	78 II	3.6	3.0	7.4	15.1
Japan	78 II	1.8	1.5	5.1	7.6
West Germany	78 II	−0.5	1.2	7.8	−2.0
France	77 IV	0.8	4.0	4.7	3.3
United Kingdom	78 I	2.8	1.8	11.3	11.6
Italy	78 I	2.3	1.1	−19.6	9.4
Canada	78 II	10.6	6.5	6.1	49.9

[1] Seasonally adjusted.

WAGES IN MANUFACTURING [1]

	Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier [2]
United States	Jul 78	1.2	7.6	7.6	6.8
Japan	Apr 78	0.3	16.1	8.2	10.3
West Germany	78 I	0.9	8.9	4.3	3.9
France	77 IV	3.1	14.1	12.0	12.9
United Kingdom	Jun 78	0.1	16.3	20.5	84.0
Italy	Jun 78	0	20.1	15.5	13.8
Canada	Jul 78	1.0	10.7	6.7	5.9

[1] Hourly earnings (seasonally adjusted) for the United States, Japan, and Canada; hourly wage rates for others. West German and French data refer to the beginning of the quarter.
[2] Average for latest 3 months compared with that for previous 3 months.

MONEY MARKET RATES

	Representative rates	Latest Date	Percent Rate of Interest	1 Year Earlier	3 Months Earlier	1 Month Earlier
United States	Commercial paper	Oct 25	9.09	6.57	7.81	8.52
Japan	Call money	Oct 27	4.13	4.88	4.38	4.25
West Germany	Interbank loans (3 months)	Oct 25	3.82	4.08	3.71	3.70
France	Call money	Oct 27	7.00	8.50	7.75	7.00
United Kingdom	Sterling interbank loans (3 months)	Oct 25	10.71	4.93	9.91	9.34
Canada	Finance paper	Oct 25	9.92	7.30	8.38	9.29
Eurodollars	Three-month deposits	Oct 25	10.31	7.05	8.41	9.41

EXPORT PRICES
US $

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier
United States	Jul 78	−0.4	9.6	9.5	15.7
Japan	Jul 78	1.0	11.7	26.8	37.9
West Germany	Jun 78	1.7	11.5	12.9	−4.0
France	Jun 78	2.2	11.5	13.6	7.8
United Kingdom	Sep 78	1.7	12.3	21.8	41.9
Italy	Jun 78	0.5	10.8	8.1	2.7
Canada	Jul 78	0.9	8.3	0.6	10.3

EXPORT PRICES
National Currency

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier
United States	Jul 78	−0.4	9.6	9.5	15.7
Japan	Jul 78	−5.8	3.8	−4.3	−8.8
West Germany	Jun 78	0.7	3.9	−0.1	4.9
France	Jun 78	0.6	8.8	5.3	−2.8
United Kingdom	Sep 78	0.8	15.1	8.3	9.6
Italy	Jun 78	−0.8	15.3	4.9	4.6
Canada	Jul 78	1.5	9.3	6.6	3.8

IMPORT PRICES
National Currency

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier
United States	Jul 78	0.6	12.6	7.3	2.9
Japan	Jul 78	−6.6	5.8	−20.9	−22.7
West Germany	Jun 78	−1.6	3.0	−5.9	−12.5
France	Jun 78	−0.6	9.1	0.2	−9.1
United Kingdom	Sep 78	0.9	17.1	4.3	3.8
Italy	Jun 78	−0.7	18.7	1.8	2.4
Canada	Jul 78	2.3	9.7	11.3	17.4

OFFICIAL RESERVES

	Latest Month: End of	Latest Month: Billion US $	Billion US $: Jun 1970	1 Year Earlier	3 Months Earlier
United States	Jun 78	18.9	14.5	19.2	19.2
Japan	Aug 78	29.2	4.1	17.8	27.7
West Germany	Jul 78	41.1	8.8	35.1	41.3
France	Apr 78	10.6	4.4	10.0	10.2
United Kingdom	Aug 78	17.4	2.8	15.0	17.3
Italy	Aug 78	14.9	4.7	10.5	12.2
Canada	Sep 78	3.7	9.1	4.8	4.7

CURRENT ACCOUNT BALANCE [1]

	Latest Period	Million US $	Cumulative (Million US $) 1978	1977	Change
United States [2]	78 I	−6,954	−6,954	−4,158	−2,796
Japan	Aug 78	7	10,803	5,300	5,503
West Germany	Jul 78	−868	2,831	1,406	1,425
France	78 I	−84	−84	−1,628	1,543
United Kingdom	78 I	−803	−803	−896	94
Italy	78 I	288	288	−1,025	1,313
Canada	78 II	−1,201	−2,381	−2,658	277

[1] Converted to US dollars at the current market rates of exchange.
[2] Seasonally adjusted.

BASIC BALANCE [1]
Current and Long-Term Capital Transactions

	Latest Period	Million US $	Cumulative (Million US $) 1978	1977	Change
United States		No longer published [2]			
Japan	Aug 78	−1,268	4,867	3,779	1,088
West Germany	Jul 78	−881	1,915	−2,363	4,278
France	78 I	−863	−863	−1,889	1,025
United Kingdom	78 I	−326	−326	543	−869
Italy	77 III	2,427	N.A.	N.A.	N.A.
Canada	78 II	883	327	−557	884

[1] Converted to US dollars at the current market rates of exchange.
[2] As recommended by the Advisory Committee on the Presentation of Balance of Payments Statistics, the Department of Commerce no longer publishes a basic balance.

EXCHANGE RATES
Spot Rate
As of 27 Oct 78

	US $ Per Unit	Percent Change from 19 Mar 73	1 Year Earlier	3 Months Earlier	20 Oct 78
Japan (yen)	0.0056	45.80	41.97	5.06	2.32
West Germany (Deutsche mark)	0.5682	59.84	28.92	15.30	2.64
France (franc)	0.2466	11.13	19.77	8.17	3.42
United Kingdom (pound sterling)	2.0630	−16.56	16.59	7.16	3.25
Italy (lira)	0.0013	−28.65	10.56	5.72	1.78
Canada (dollar)	0.8515	−15.13	−6.56	−3.14	0.84

TRADE-WEIGHTED EXCHANGE RATES [1]
As of 27 Oct 78

	Percent Change from 19 Mar 73	1 Year Earlier	3 Months Earlier	20 Oct 78
United States	−6.73	−11.86	−3.88	−1.86
Japan	46.60	35.37	2.59	1.48
West Germany	37.01	7.70	5.46	0.03
France	−10.09	−1.83	−2.56	0.91
United Kingdom	−29.33	−0.37	−0.90	1.09
Italy	−44.04	−8.66	−3.90	−0.69
Canada	−17.64	−10.94	−4.77	0.28

[1] Weighting is based on each listed country's trade with 16 other industrialized countries to reflect the competitive impact of exchange rate variations among the major currencies.

Developed Countries: Direction of Trade[1]

Billion US $

	Exports to (f.o.b.)					
	World	Big Seven	Other OECD	OPEC	Com-munist	Other
UNITED STATES						
1975	107.65	46.94	16.25	10.77	3.37	29.82
1976	115.01	51.30	17.68	12.57	3.64	29.44
1977	120.17	53.92	18.53	14.02	2.72	30.98
1978						
1st Qtr	30.94	13.65	4.60	3.76	1.00	7.93
Apr	12.06	5.40	1.68	1.38	0.42	3.17
JAPAN						
1975	55.73	16.56	6.07	8.42	5.16	15.87
1976	67.32	22.61	8.59	9.27	4.93	17.84
1977	81.11	28.02	9.73	12.03	5.32	26.01
1978						
1st Qtr	22.11	7.83	2.39	3.35	1.32	7.22
Apr	7.89	2.80	0.80	1.19	0.57	2.53
WEST GERMANY						
1975	91.70	28.33	36.44	6.78	8.81	11.05
1976	103.63	33.44	41.86	8.25	8.72	11.04
1977	119.28	39.01	48.00	10.78	8.59	12.90
1978						
1st Qtr	32.45	11.17	13.05	2.76	1.97	3.50
FRANCE						
1975	52.87	20.00	15.50	4.90	3.13	8.61
1976	57.05	22.49	16.15	5.08	3.23	8.75
1977	65.00	25.90	18.19	5.97	3.00	11.94
1978						
1st Qtr	18.49	7.66	5.07	1.57	0.66	3.53
Apr	6.74	2.82	1.90	0.56	0.28	1.18
UNITED KINGDOM						
1975	44.03	12.55	16.59	4.55	1.56	8.64
1976	46.12	14.03	17.53	5.13	1.39	7.92
1977	57.44	16.99	22.56	6.78	1.63	9.48
1978						
1st Qtr	16.86	5.09	6.27	2.03	0.55	2.92
Apr	5.75	1.73	2.19	0.74	0.18	0.91
ITALY						
1975	34.82	15.61	7.86	3.72	2.46	4.67
1976	36.96	17.41	8.69	4.23	2.18	3.96
1977	45.04	20.92	10.20	5.85	2.45	5.62
1978						
1st Qtr	10.80	5.25	2.37	1.37	0.48	1.33
CANADA						
1975	33.84	26.30	1.73	0.71	1.20	2.00
1976	40.18	32.01	2.03	0.81	1.25	2.09
1977	42.98	34.77	2.13	0.94	1.06	4.08
1978						
1st Qtr	10.75	8.78	0.55	0.23	0.22	0.97
Apr	4.20	3.44	0.16	0.08	0.07	0.45

[1] Source: International Monetary Fund, Direction of Trade.

Approved For Release 2004/07/28 : CIA-RDP80T00702A000900050002-5

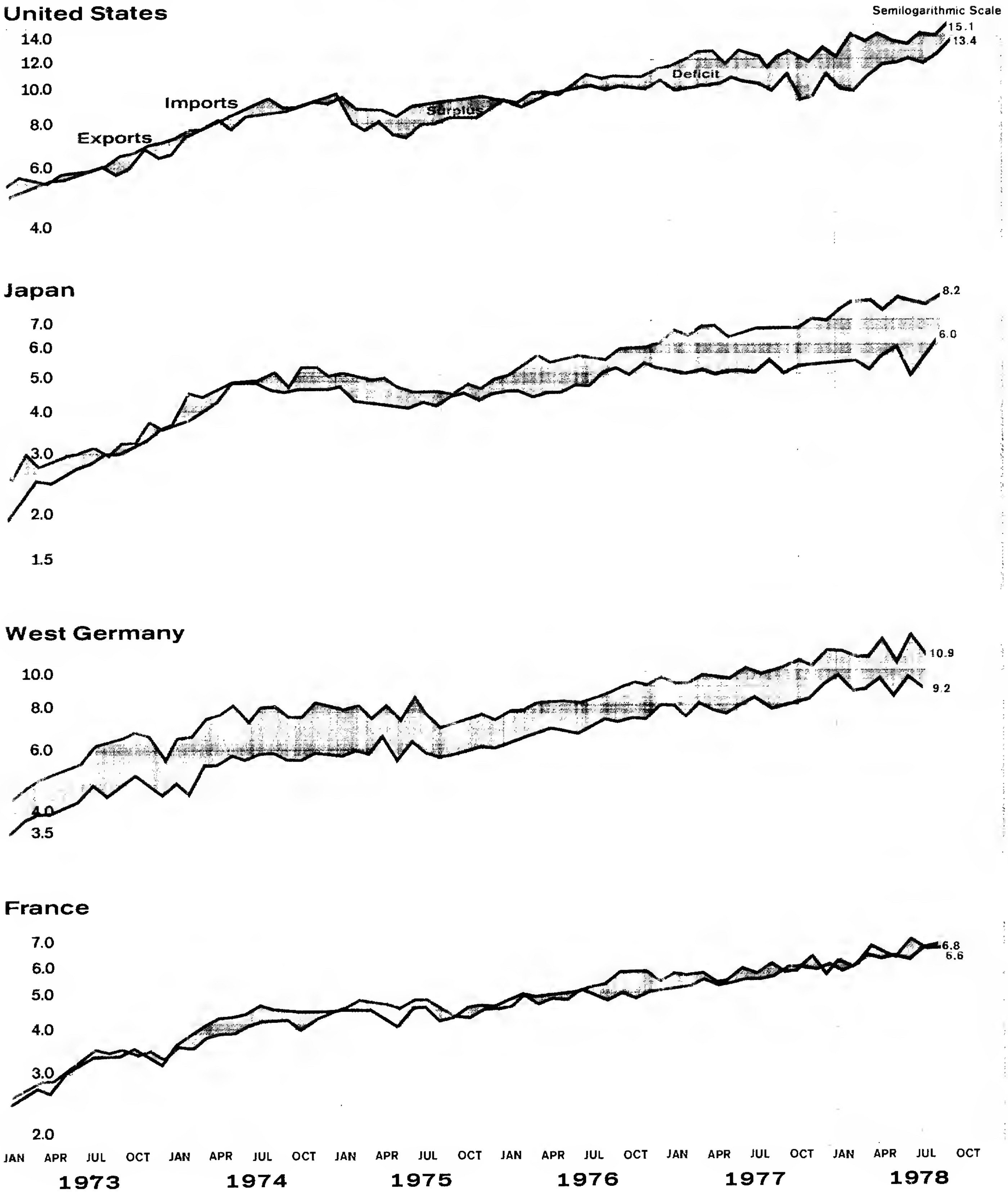
Developed Countries: Direction of Trade [1]

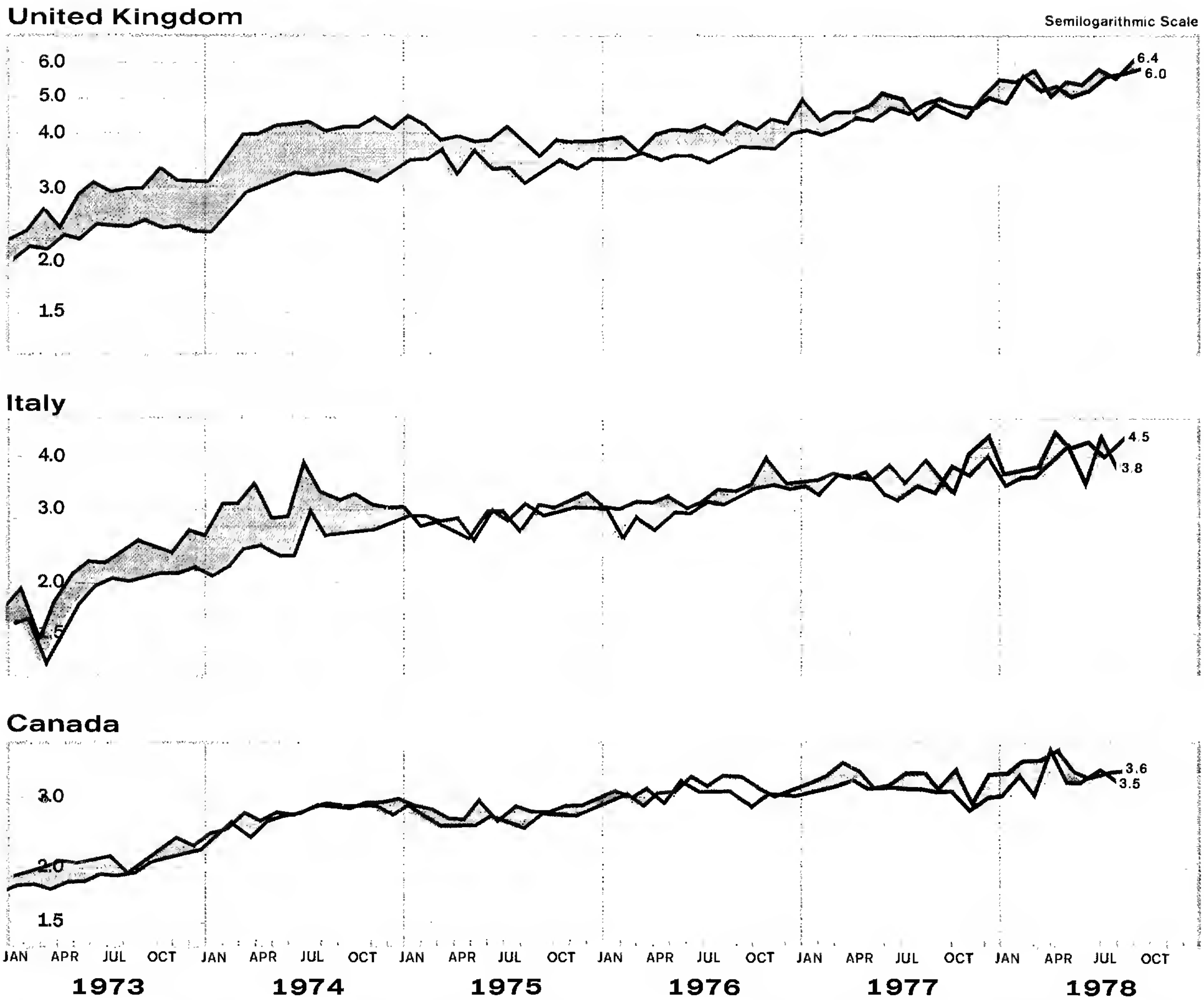
Billion US $

	Imports from (c.i.f.)					
	World	Big Seven	Other OECD	OPEC	Communist	Other
UNITED STATES						
1975	103.42	49.81	8.83	18.70	0.98	25.08
1976	129.57	60.39	9.75	27.17	1.16	31.09
1977	156.70	70.48	11.08	35.45	1.22	38.47
1978						
1st Qtr	43.14	20.39	3.51	8.15	0.47	10.62
Apr	15.42	7.54	1.27	2.73	0.18	3.70
JAPAN						
1975	57.85	16.93	6.08	19.40	3.36	12.05
1976	64.89	17.58	7.78	21.88	2.91	14.72
1977	71.33	18.87	7.93	24.33	3.41	16.79
1978						
1st Qtr	18.32	5.04	2.06	6.46	0.87	3.89
Apr	6.28	1.64	0.74	2.01	0.36	1.53
WEST GERMANY						
1975	76.28	27.09	27.78	8.24	4.87	8.21
1976	89.68	31.28	32.64	9.73	5.93	10.01
1977	102.63	36.38	37.37	10.12	6.14	12.62
1978						
1st Qtr	28.24	10.11	10.88	2.32	1.39	3.54
FRANCE						
1975	53.99	23.04	14.33	9.43	1.94	5.21
1976	64.38	27.81	16.93	11.36	2.24	6.01
1977	70.50	30.28	18.24	11.82	2.46	7.70
1978						
1st Qtr	19.76	8.58	5.40	3.05	0.64	2.09
Apr	6.79	3.02	1.84	1.00	0.23	0.70
UNITED KINGDOM						
1975	53.35	18.47	18.52	6.91	1.68	7.67
1976	55.56	19.66	18.81	7.29	2.08	7.65
1977	63.29	24.02	21.34	6.31	2.40	9.22
1978						
1st Qtr	18.87	7.44	6.68	1.80	0.55	2.40
Apr	5.67	2.27	2.04	0.39	0.16	0.81
ITALY						
1975	38.36	17.32	6.75	7.85	2.09	4.34
1976	43.42	19.35	8.04	8.12	2.65	5.24
1977	47.56	20.80	8.67	9.03	2.80	6.26
1978						
1st Qtr	11.26	5.03	2.10	2.18	0.51	1.44
CANADA						
1975	38.59	29.78	1.70	3.43	0.32	2.02
1976	43.05	33.55	1.82	3.48	0.38	2.56
1977	44.67	35.67	1.77	3.05	0.33	3.85
1978						
1st Qtr	10.80	8.60	0.44	0.77	0.08	0.91
Apr	4.61	3.84	0.18	0.03	0.19	0.37

[1] Source: International Monetary Fund, Direction of Trade.

FOREIGN TRADE BILLION US $, f.o.b., seasonally adjusted



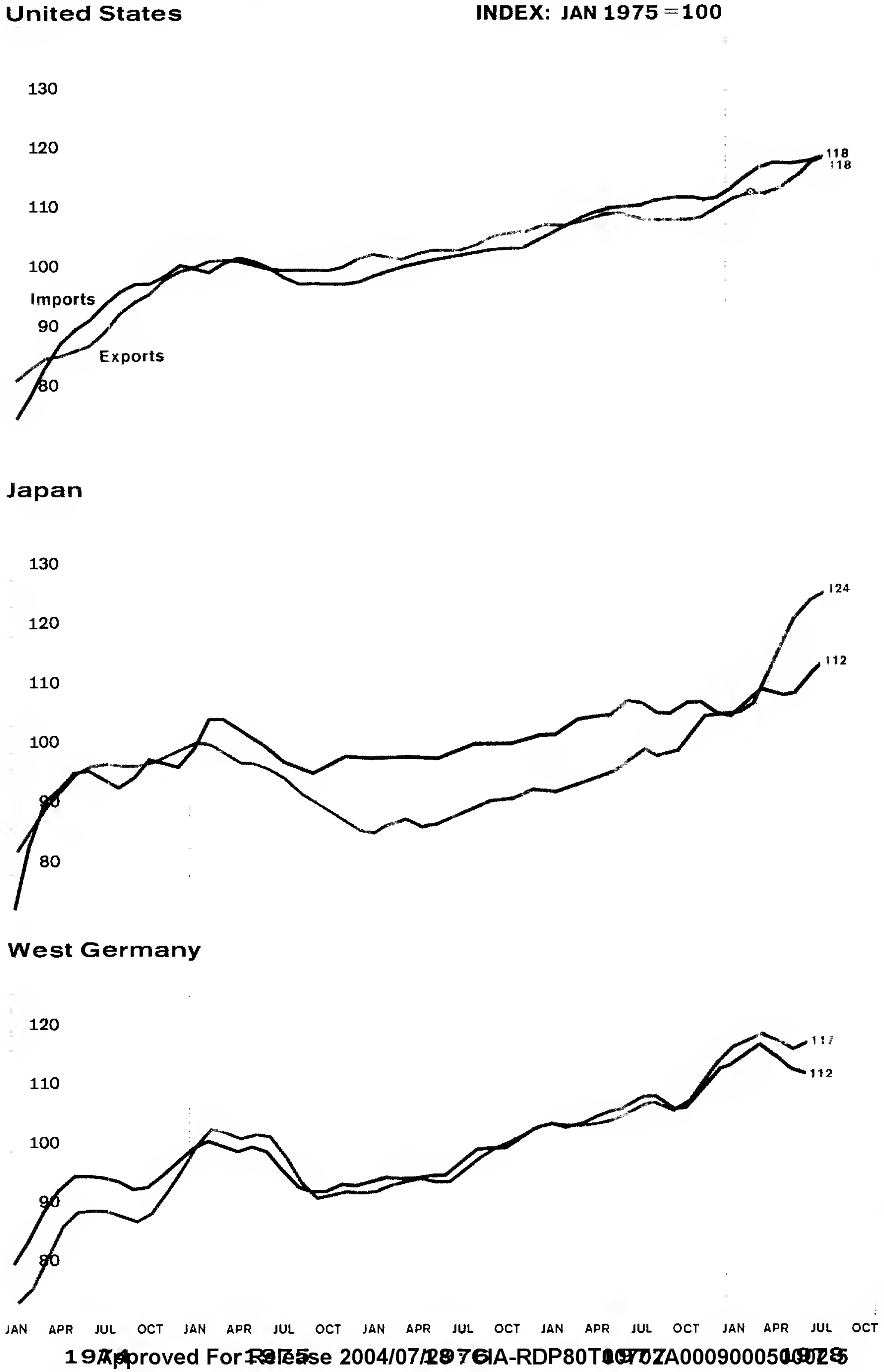


	LATEST MONTH	MILLION US $	CUMULATIVE (MILLION US $) 1978	1977	CHANGE
United States	SEP 78	13,429	104,054	91,352	13.9%
		15,120	126,721	109,305	15.9%
	Balance	−1,691	−22,667	−17,953	−4,714
Japan	AUG 78	8,146	62,499	51,820	20.6%
		6,023	43,994	41,055	7.2%
	Balance	2,123	18,505	10,765	7,740
West Germany	JUL 78	10,890	78,259	66,376	17.9%
		9,203	64,604	55,039	17.4%
	Balance	1,687	13,655	11,337	2,318
France	AUG 78	6,598	50,854	41,993	21.1%
		6,842	50,735	44,401	14.3%
	Balance	−244	119	−2,409	2,527

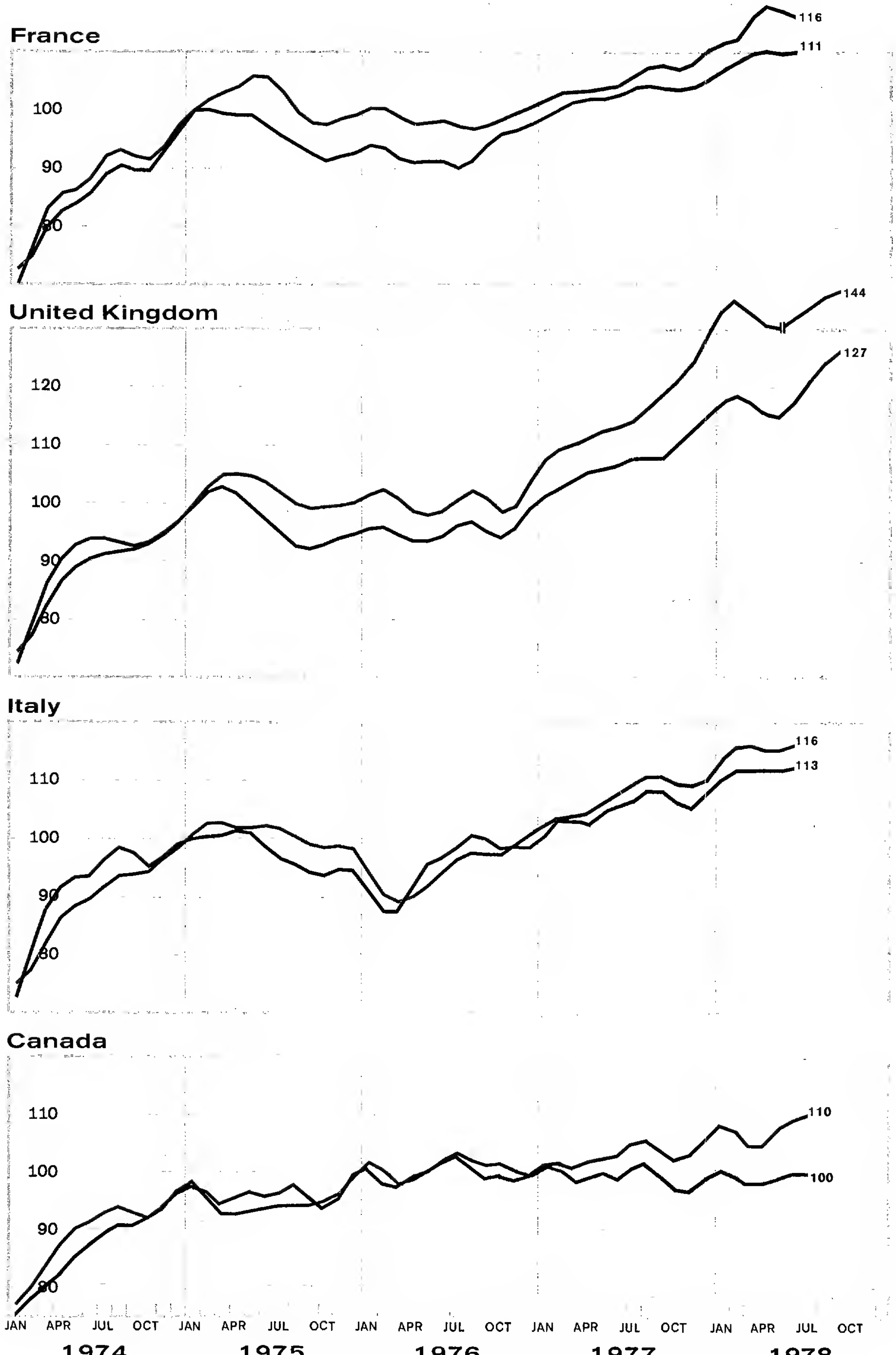
	LATEST MONTH	MILLION US $	CUMULATIVE (MILLION US $) 1978	1977	CHANGE
United Kingdom	SEP 78	6,043	50,004	41,298	21.1%
		6,423	51,895	44,234	17.3%
	Balance	−380	−1,891	−2,936	1,044
Italy	AUG 78	4,480	33,333	29,145	14.4%
		3,787	31,244	28,992	7.8%
	Balance	693	2,089	153	1,936
Canada	AUG 78	3,640	29,739	27,962	6.4%
		3,478	28,071	26,672	5.2%
	Balance	162	1,668	1,289	379

577673 11-78

FOREIGN TRADE PRICES IN US $[1]



[1]Export and import plots are based on five-month weighted moving averages.



Approved For Release 2004/07/28 : CIA-RDP80T00702A000900050002-5

577670 11-78

SELECTED DEVELOPING COUNTRIES

INDUSTRIAL PRODUCTION [1]

	Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier [2]
India	Jun 78	−2.8	5.2	5.4	21.1
South Korea	Jun 78	−1.2	22.5	20.1	26.5
Mexico	May 78	−2.2	6.3	8.3	14.3
Nigeria	78 I	6.8	11.4	0.5	30.0
Taiwan	Aug 78	2.9	16.3	33.6	40.6

[1] Seasonally adjusted.
[2] Average for latest 3 months compared with average for previous 3 months.

MONEY SUPPLY [1]

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier [2]
Brazil	Mar 78	2.7	36.4	43.3	34.7
India	Apr 78	2.5	14.0	16.2	13.0
Iran	May 78	0.4	29.0	21.4	66.2
South Korea	Jun 78	4.3	31.6	30.4	20.9
Mexico	Jun 78	2.9	20.9	37.7	30.8
Nigeria	Mar 78	5.6	35.3	18.9	3.3
Taiwan	May 78	0.6	25.1	32.8	40.8
Thailand	Apr 78	−3.2	13.3	12.5	32.3

[1] Seasonally adjusted.
[2] Average for latest 3 months compared with average for previous 3 months.

CONSUMER PRICES

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier
Brazil	Jun 78	4.1	28.3	38.0
India	May 78	0.3	7.4	1.6
Iran	Jun 78	−0.1	12.2	10.2
South Korea	Aug 78	0.3	14.5	13.5
Mexico	Jul 78	1.7	15.2	18.3
Nigeria	Dec 77	3.1	16.6	31.3
Taiwan	Aug 78	1.9	9.8	−0.6
Thailand	Jun 78	0.9	8.7	8.4

WHOLESALE PRICES

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier
Brazil	May 78	3.4	28.4	34.5
India	May 78	0.6	8.0	−2.8
Iran	Jun 78	−1.3	10.7	9.3
South Korea	Aug 78	0.1	15.7	10.9
Mexico	Jul 78	1.1	16.5	17.3
Taiwan	Aug 78	0.4	8.1	1.6
Thailand	Mar 78	−0.1	9.4	5.8

EXPORT PRICES
US $

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier
Brazil	Feb 78	0.4	14.0	1.5
India	Sep 77	−2.7	10.0	18.4
South Korea	78 I	0.7	8.7	7.7
Taiwan	Jun 78	1.9	11.3	3.3
Thailand	Dec 77	0.1	10.2	−7.8

OFFICIAL RESERVES

	Latest Month: End of	Latest Month: Million US $	Million US $: Jun 1970	1 Year Earlier	3 Months Earlier
Brazil	Feb 78	6,733	1,013	5,878	5,994
India	Jun 78	6,140	1,006	4,559	5,823
Iran	Aug 78	11,949	208	11,561	12,468
South Korea	Jul 78	4,298	602	3,656	4,138
Mexico	Mar 78	1,766	695	1,422	1,723
Nigeria	Aug 78	1,872	148	4,611	2,609
Taiwan	Jun 78	1,462	531	1,411	1,433
Thailand	Aug 78	2,295	978	1,992	2,129

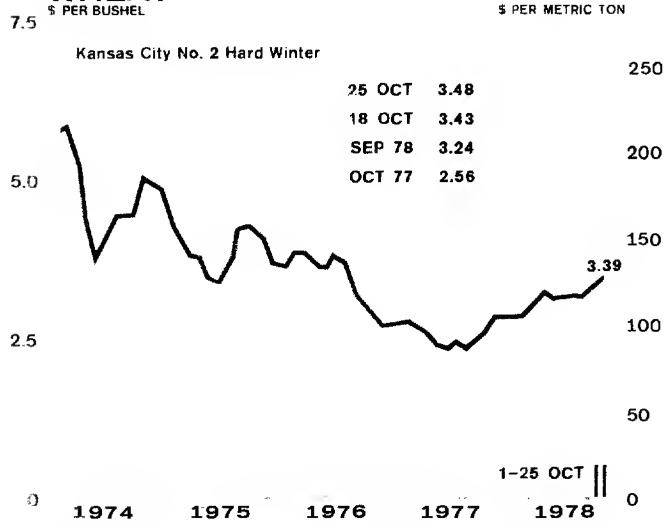
FOREIGN TRADE, f.o.b.

	Latest Period		Latest 3 Months Percent Change from: 3 Months Earlier [1]	1 Year Earlier	Cumulative (Million US $): 1978	1977	Change
Brazil	May 78	Exports	84.8	−3.7	4,743	4,979	−4.7%
	May 78	Imports	26.6	1.4	5,110	4,939	3.5%
	May 78	Balance			−367	40	−407
India	Mar 78	Exports	−19.6	−13.5	1,476	1,707	−13.5%
	Mar 78	Imports	−24.1	9.7	1,444	1,316	9.7%
	Mar 78	Balance			32	391	−358
Iran	Jul 78	Exports	49.4	14.0	13,913	13,562	2.6%
	May 78	Imports	−1.6	1.6	5,705	5,259	8.5%
	May 78	Balance			4,087	4,871	−783
South Korea	Jul 78	Exports	39.3	23.5	6,749	5,351	26.1%
	Jul 78	Imports	83.0	29.2	7,284	5,695	27.9%
	Jul 78	Balance			−535	−344	−191
Mexico	Jun 78	Exports	−7.3	8.4	2,412	2,162	11.6%
	Jun 78	Imports	91.3	26.8	2,934	2,340	25.4%
	Jun 78	Balance			−522	−178	−344
Nigeria	78 II	Exports	86.7	−26.0	1,808	2,526	−28.4%
	78 I	Imports	579.5	115.0	1,808	841	115.0%
	78 I	Balance			−974	368	−1,342
Taiwan	Aug 78	Exports	84.2	38.7	8,044	5,884	36.7%
	Aug 78	Imports	68.9	32.5	6,439	5,119	25.8%
	Aug 78	Balance			1,605	765	840
Thailand	May 78	Exports	21.9	4.5	1,609	1,506	6.8%
	May 78	Imports	105.7	21.3	1,908	1,624	17.5%
	May 78	Balance			−299	−117	−182

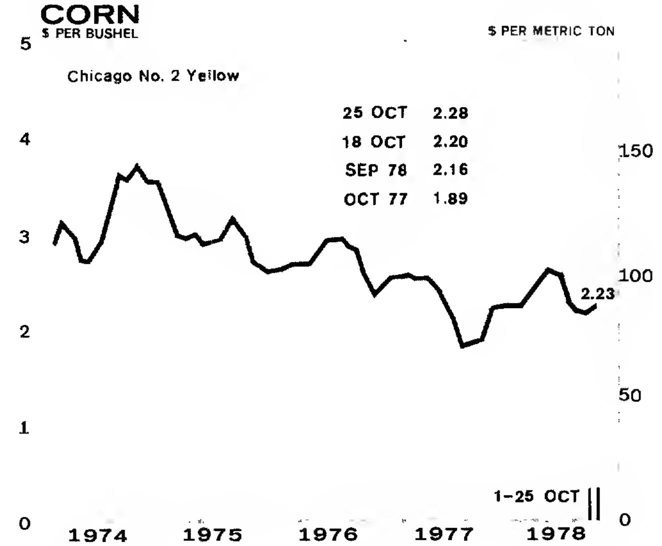
[1] At annual rates.

AGRICULTURAL PRICES MONTHLY AVERAGE CASH PRICE

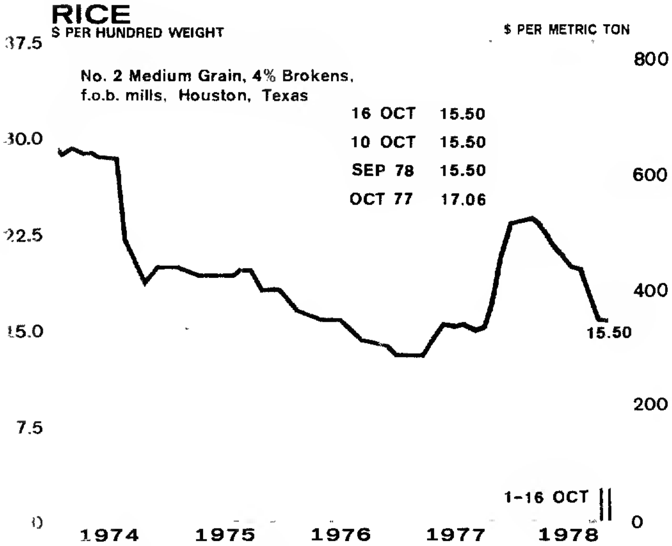
WHEAT



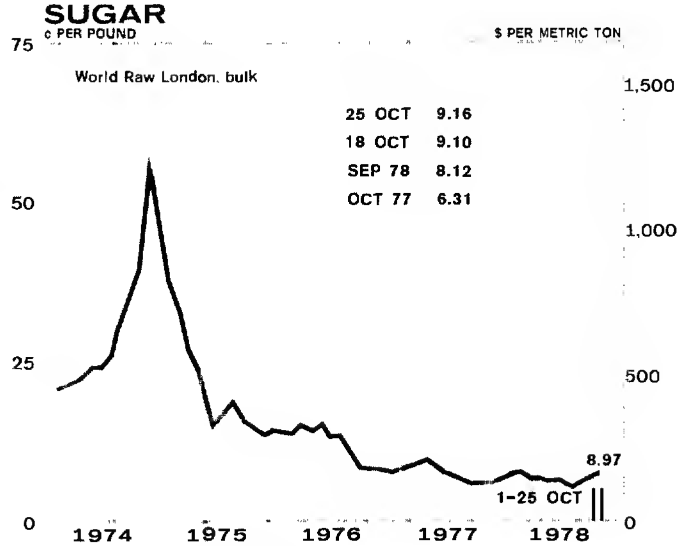
CORN



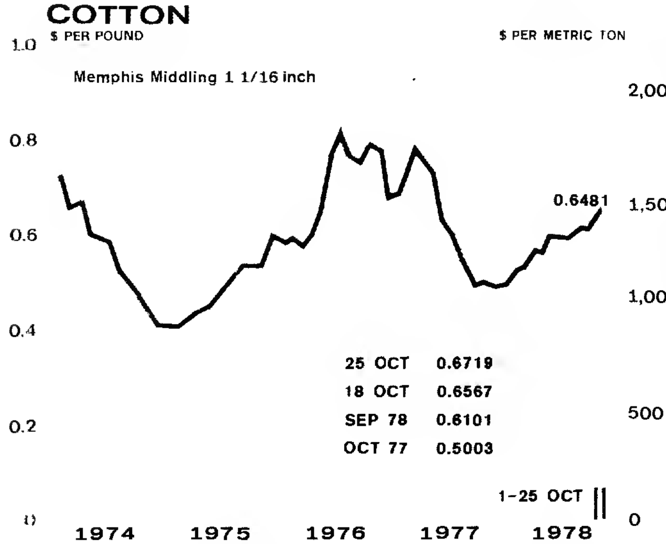
RICE



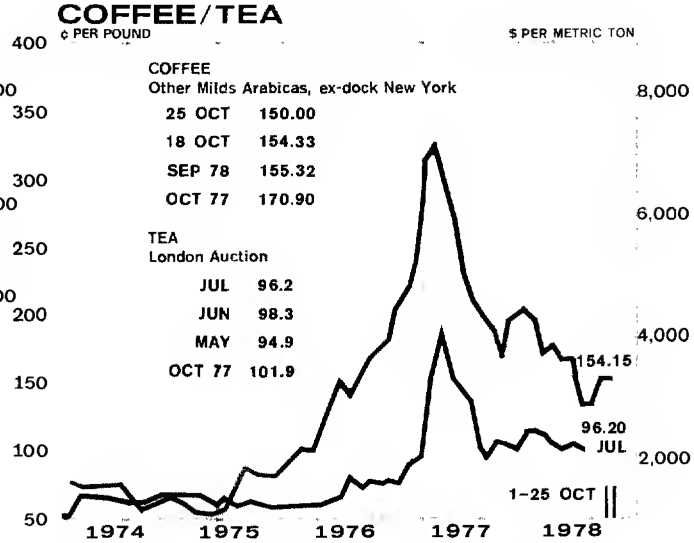
SUGAR

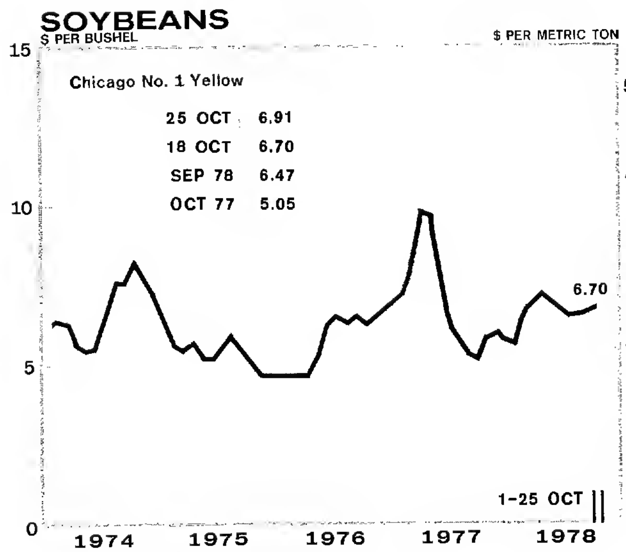


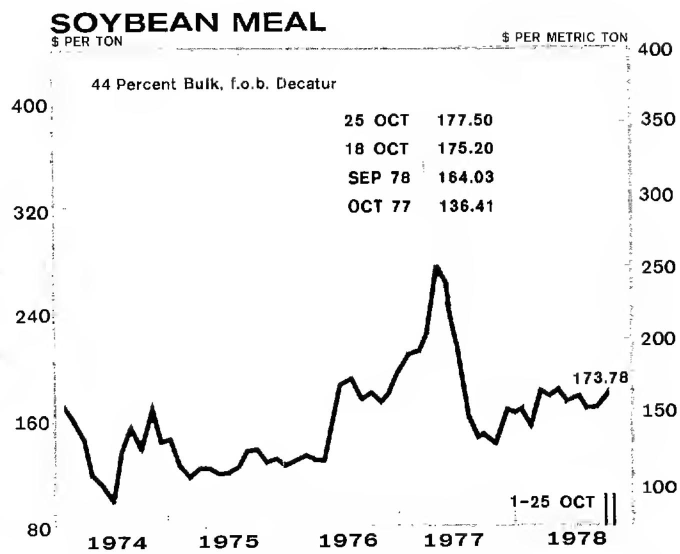
COTTON

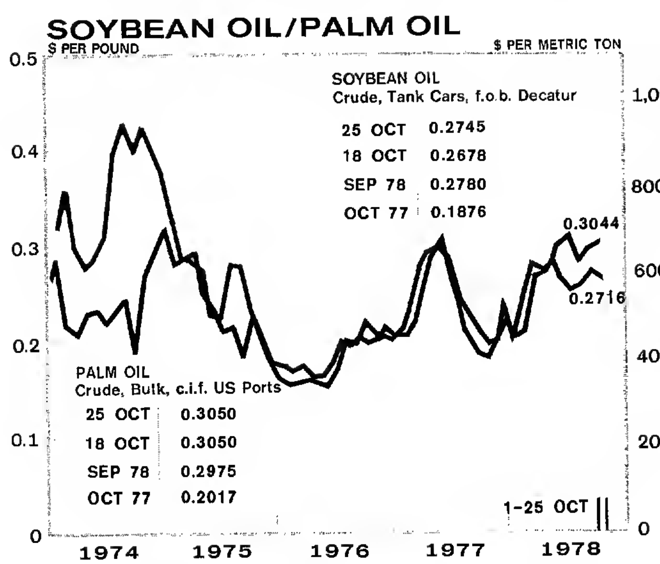


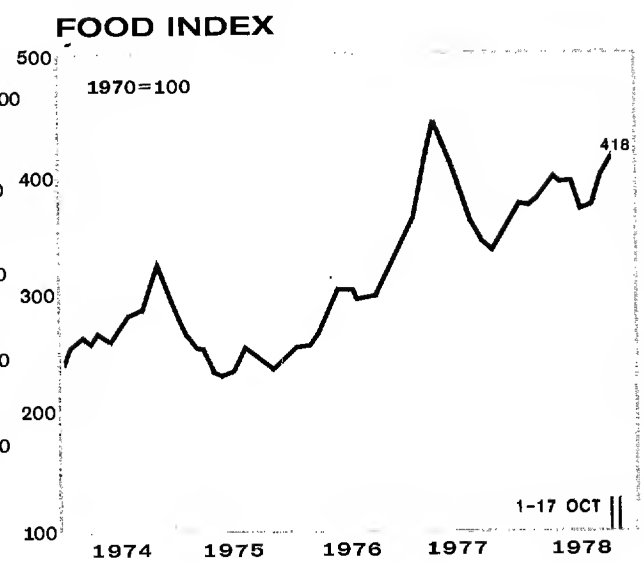
COFFEE/TEA



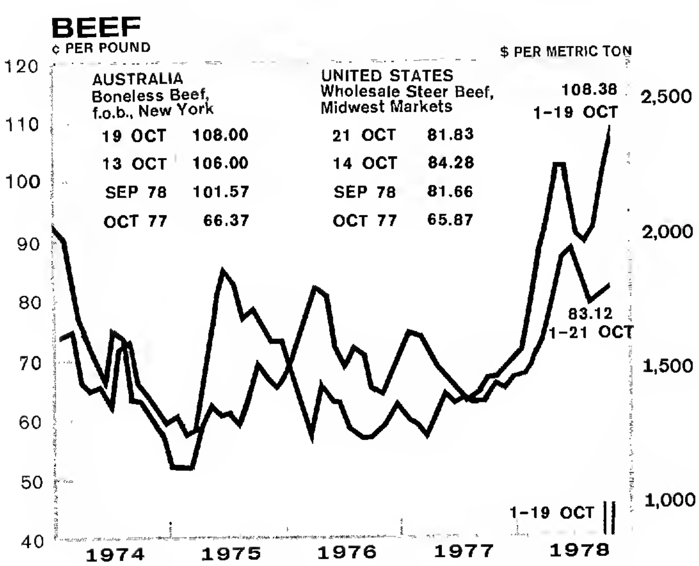








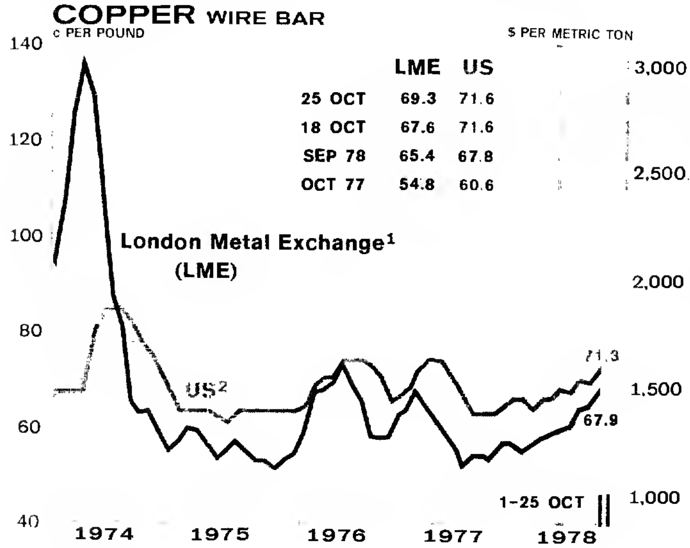
577675 11-78



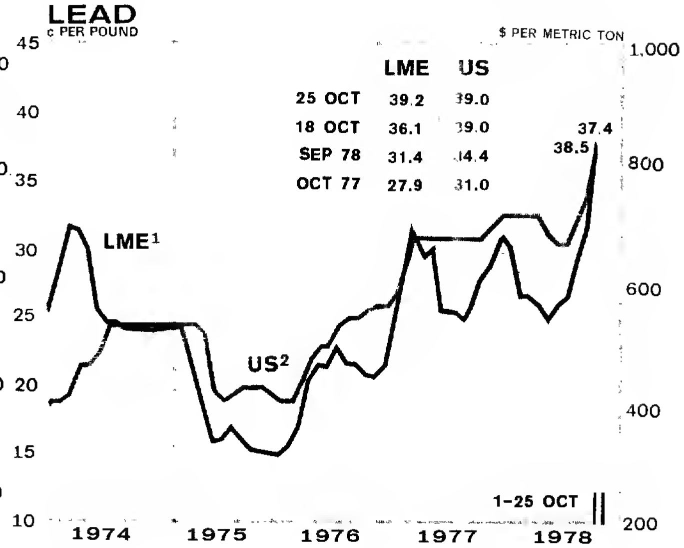
NOTE: The food index is compiled by the Economist for 16 food commodities which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

INDUSTRIAL MATERIALS PRICES MONTHLY AVERAGE CASH PRICE

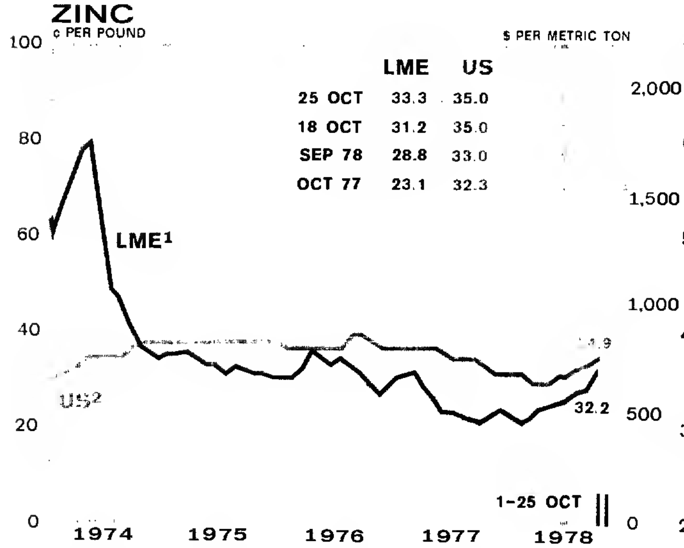
COPPER WIRE BAR



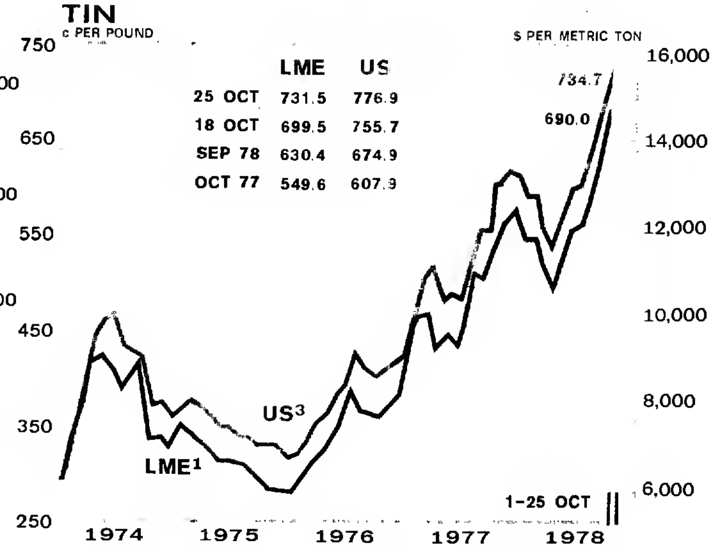
LEAD



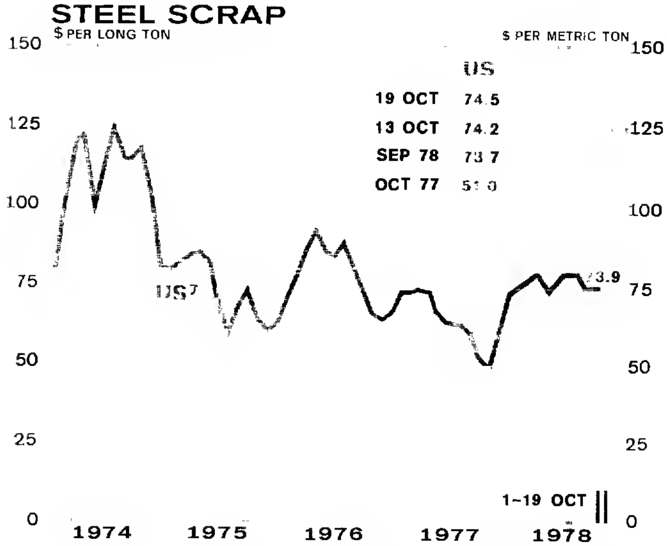
ZINC



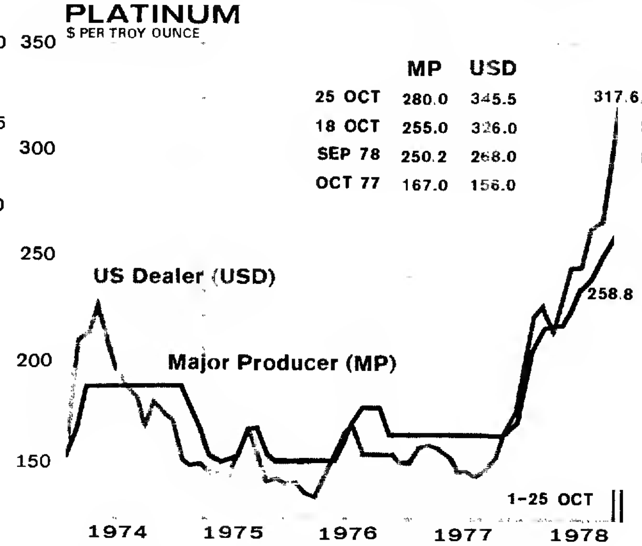
TIN



STEEL SCRAP



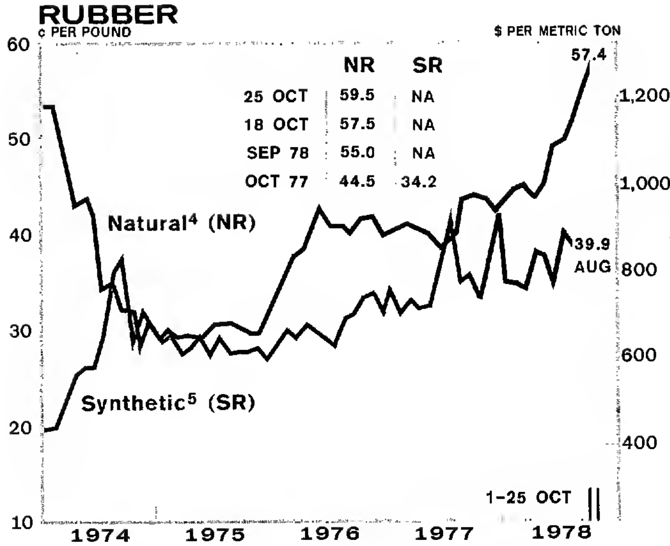
PLATINUM



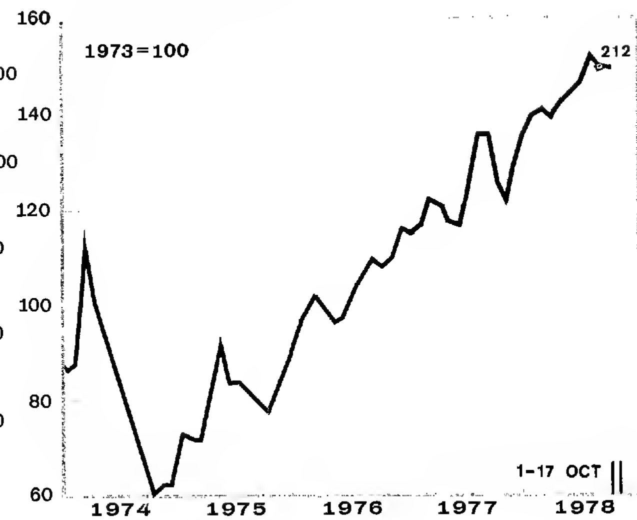
SELECTED MATERIALS

			CURRENT	APR 78	OCT 77	OCT 76
ALUMINUM	Major US Producer	¢ per pound	55.25	53.00	53.00	48.00
US STEEL	Composite	$ per long ton	419.31	395.81	359.36	327.00
IRON ORE	Non-Bessemer Old Range	$ per long ton	22.55	21.43	21.43	20.51
CHROME ORE	Russian, Metallurgical Grade	$ per metric ton	NA	NA	150.00	150.00
CHROME ORE	S. Africa, Chemical Grade	$ per long ton	56.00	56.00	58.50	42.00
FERROCHROME	US Producer, 66-70 Percent	¢ per pound	42.00	41.00	41.00	44.00
NICKEL	Composite US Producer	$ per pound	2.02	2.08	2.11	2.41
MANGANESE ORE	48 Percent Mn	$ per long ton	67.20	67.20	72.28	72.00
TUNGSTEN ORE	Contained Metal	$ per metric ton	18,222.00	18,372.00	20,236.00	16,340.00
MERCURY	New York	$ per 76 pound flask	151.00	151.00	141.14	132.45
SILVER	LME Cash	¢ per troy ounce	594.79	515.88	476.67	421.55
GOLD	London Afternoon Fixing Price	$ per troy ounce	226.75	175.28	158.86	116.12

RUBBER



LUMBER INDEX[6]



INDUSTRIAL MATERIALS INDEX

[1] Approximates world market price frequently used by major world producers and traders, although only small quantities of these metals are actually traded on the LME.

[2] Producers' price, covers most primary metals sold in the US.

[3] As of 1 Dec 75, US tin price quoted is "Tin NY lb composite."

[4] Quoted on New York market.

[5] S-type styrene, US export price.

[6] This index is compiled by using the average of 13 types of lumber whose prices are regarded as bellwethers of US lumber construction costs.

[7] Composite price for Chicago, Philadelphia, and Pittsburgh.

NOTE: The industrial materials index is compiled by the Economist for 19 raw materials which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

577674 11-78